



CITY OF LONG BEACH

C-8

DEPARTMENT OF FINANCIAL MANAGEMENT

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August 21, 2007

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Refer the Comprehensive Annual Financial Report (CAFR), Separately Issued Financial Statements and the Federal Single Audit for the Fiscal Year Ended September 30, 2006 to the Budget Oversight Committee. (Citywide)

DISCUSSION

Comprehensive Annual Financial Report

The Comprehensive Annual Financial Report (CAFR), prepared by the Financial Management Department, contains audited financial information on all City funds for the fiscal year ended September 30, 2006 (FY 06) in accordance with generally accepted accounting principles. In accordance with Section 302(e) of the City Charter, the CAFR is submitted annually to the City Council. The FY 06 CAFR uses reporting methods reflected in the Governmental Accounting Standards Board Statement No. 34 (GASB 34), the reporting model for all state and local governments. It is important to note that the CAFR is designed to report historical financial information only and is not designed to report financial projections or budgetary priorities.

We are pleased to report that the Independent Auditor's Report, found on page 1, concluded that the City's financial statements present fairly, in all material respects, the financial position of the City, and its related cash flow and budgetary information. The audit was conducted by KPMG LLP, a certified public accounting firm, under contract with the City Auditor.

The CAFR provides Basic Financial Statements that combine all of the City's assets and liabilities in one consolidated statement. Total City net assets, on an all funds basis, as shown on page 23, were \$3.4 billion as of September 30, 2006, which included \$2.8 billion for enterprise operations such as the Harbor Fund, Water Fund and Tidelands Fund. Net assets increased by \$316.3 million from FY 05 and are in the form of buildings, real property, bond proceeds, funds reserved for capital projects, debt service and grants-funded programs. Most of these funds are restricted by federal or state law and are not available for discretionary use.

As of September 30, 2006, the unreserved fund balance for the General Fund reflects the Emergency Reserve of \$36.9 million, comprised of \$34.4 million designated by the City Council, plus \$2.5 million required by the City Charter, which reflects 10.0 percent of total General Fund expenditures, consistent with the City Council's Financial Policy.

A separately issued Management Letter accompanying the CAFR also provides certain recommendations from KPMG LLP, on how the City can improve its financial reporting and internal controls. City management has reviewed KPMG's recommendations and has responded to each issue in the attached letter.

Separately Issued Financial Reports and Statements

In addition to the CAFR, certain City departments, funds, joint powers authorities, and other subsidiary entities are also required to submit audited annual financial statements including the Harbor Department, Water Department, Redevelopment Agency (submitted under separate cover), Long Beach Housing Development Company, Southeast Resource Recovery Facility (SERRF) Joint Powers Authority, Aquarium of the Pacific and the Gas Enterprise Fund. These separate reports are enclosed and are issued annually to meet distinct legal and financial requirements. The financial statement for Long Beach Transit, a discretely presented component unit of the City, for which the City is the sole shareholder, is also included.

Federal Single Audit

Lastly, the Federal Single Audit required by the Federal Office of Management and Budget for municipalities receiving over \$500,000 annually in federal funds is also enclosed.

TIMING CONSIDERATIONS

Action on this item is not time critical.

FISCAL IMPACT

There is no fiscal impact associated with this action.

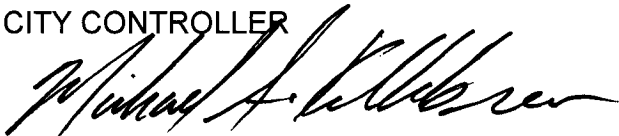
SUGGESTED ACTION:

Approve recommendation.

Respectfully Submitted,



LORI ANN FARRELL
CITY CONTROLLER



MICHAEL A. KILLEBREW
DIRECTOR OF FINANCIAL MANAGEMENT

APPROVED:


for ANTHONY W. BATTS
CITY MANAGER

MAK/LAF/ldc

ATTACHMENTS:

Comprehensive Annual Financial Report (CAFR) for the City of Long Beach, California
The Harbor Department Financial Statement
Comprehensive Annual Financial Report of the Long Beach Water Department
Redevelopment Agency of the City of Long Beach Annual Financial Report
The Long Beach Housing Development Company Annual Financial Report
Southeast Resource Recovery Facility (SERRF) Joint Powers Authority Report
Aquarium of the Pacific Consolidating Financial Statements
City of Long Beach Gas Enterprise Fund Annual Financial Report
Long Beach Transit Comprehensive Annual Financial Report
Federal Single Audit Report



KPMG LLP
Suite 2000
355 South Grand Avenue
Los Angeles, CA 90071-1568

June 28, 2007

The City Council
City of Long Beach
333 West Ocean Blvd.
Long Beach, CA 90081

Ladies and Gentlemen:

We have audited the financial statements of the City of Long Beach, California (the City) as of and for the year ended September 30, 2006, and have issued our report thereon dated June 28, 2007. In planning and performing our audit of the financial statements of the City, we considered internal control as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

During our audit, we noted certain matters involving internal control and other operational matters that are presented for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies and are summarized below:

Revenue (ESPR)

Observation

Revenue related to reservations for various programs offered in the City are recorded in the Parks and Recreation system, ESCOM System at Parks and Recreation. Every night these reservation deposits and fees are consolidated into one deposit. These daily deposits are allocated to various programs through an IT program, ESPR, which creates individual allocations. During our testwork over use of money and property revenue and charges for services revenue generated from the ESPR, the City was unable to provide supporting documentation to reconcile daily revenues received over facility reservations and other City-owned property reservations.

Recommendation

We recommend that the City identify and retain information appropriate to support the allocation to various programs through ESPRs.

Management's Response

The City agrees with this recommendation. The Departments of Financial Management (FM), Parks, Recreation and Marine (PRM), and Information Technology Services (IT) are working together to review and document the existing, daily, automated interface between Financial Accounting Management Information System (FAMIS) and ESCOM to analyze and identify how the interface allocates daily deposit



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receipt(s) from the ESCOM system to revenue amounts posted in FAMIS by revenue category (e.g., charges for services and use of money and property). The computer programmers within the Information Technology Department that originally created the daily interface between ESCOM and FAMIS no longer work for the City, hence, the written documentation for the automated program itself is not readily available. It is important to note that revenue posted in ESCOM can be easily reconciled to the daily deposit receipt(s) posted in FAMIS; however, identifying how these daily deposit receipts relate to the allocations to each revenue category, i.e., ESPRs, was difficult to ascertain. From the City's perspective, this is not a material issue as bottom line revenue in ESCOM was essentially reconciled to the bottom line revenue amounts in FAMIS for a specific date that was included in KPMG's sample. However, all three systems, ESCOM, FAMIS, and the ESPR allocations should all match precisely, and the FM, PRM, and IT Departments will continue to work together to document, and if applicable, modify, the existing interface to correct any potential glitches and ensure that amounts posted can be easily reconciled.

Allowance for Uncollectible Accounts

Observation

Based on the results of our testwork, we noted that management does not currently utilize a systematic method for the review of accounts receivable to determine the adequacy of the related allowance for doubtful accounts. The accounts receivable system is configured to automatically reserve receivables aged over a specific amount and time period. However, in our testwork we identified instances where items were significantly aged beyond the allotted time period, but were not properly reserved. Periodic review of the allowance for doubtful accounts would help management avoid sudden increases in bad debt expense.

Recommendation

Standard procedures for the periodic review of accounts receivable should be established and documented. The procedures should include consideration of the aging of the balance, payment history, and extent of insurance coverage for each account. Guidelines for reserve percentages should be established to facilitate the review.

Management's Response

The City accepts KPMG's recommendation. The Department of Financial Management will create a new Financial Policy and Procedure that will incorporate standard procedures for the annual review of accounts receivable, including the aging of the balance, payment history, and extent of insurance coverage for each account. Guidelines for reserve percentages will also be established to facilitate the review.

Net Assets

Observation

During our audit, we noted that there are no written policies or procedures in place related to the annual review of the classification of net assets as part of the City's comprehensive annual financial reporting process.



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Recommendation

We recommend that the City formalize its policies or procedures for the documentation and support for the classification of net assets to ensure that the basis of the restriction is external and not an internal designation by the City.

Management's Response

The City accepts KPMG's recommendation and will formalize policies and procedures for the annual review, classification, and documentation of net assets to ensure the basis for the restriction is external and not an internal designation by the City. However, while formal written policies and procedures are not currently in place, it is important to note that there was an extensive annual review of net assets during the development of the comprehensive annual financial report.

Closing Process

Observation

During our audit, we identified that the year-end closing process begins October 2006 and continues through April 2007. As most employees have access to FAMIS adjustments would be recorded without the Department of Financial Management's knowledge. Additionally, several of the adjustments posted in the closing process reflect routine operational information such as the recording of leases and expenditures, rather than closing adjustments such as year-end accruals.

Recommendation

We recommend that the City consider modifying its year-end closing procedures and formally document these procedures in a policy that can be distributed to the City's employees. We recommend that the City's policy include the requirement to document the nature of the adjustments expected to be recorded and also include the requirement to have all adjustments recorded within 90 days after year-end.

Management's Response

The City accepts KPMG's recommendation. The City has an extensive year-end procedure currently in place that provides specific guidance and direction to departments on required year-end closing activities and their timeframes. However, as the City has 21 separate departments, over 5,000 employees, and over 30 separate funds in its accounting system, there are inevitably year-end adjustments that may not get recorded within 90 days after the fiscal year-end. Further, the City's financial records were audited for almost six months, with ensuing recommendations from the external auditors for adjusting journal entries, which require that the system remain open for postings transactions much longer than usual. The Department of Financial Management will review its year-end closing procedures to improve the timeliness of year-end adjustments and to ensure that routine adjustments are incorporated into the standard year-end process and are not unnecessarily delayed. However, certain adjustments may be identified during the year-end process, which must be recorded in month 13. The Department of Financial Management will also consider conducting training sessions for finance and accounting staff involved in the year-end closing process on the new procedures to improve consistency and compliance with these requirements.



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Document Retention

Observation

During our audit, we identified several instances where documents were misplaced. The City has a check-out policy in place; however, the policy is not strictly adhered to.

Recommendation

We recommend that the check-out policy be more strictly enforced or a more rigid requirement implemented to allow for data to be more easily accessible to employees as needed.

Management's Response

The City will consider adopting KPMG's recommendation. However, it is important to note that in some cases the missing documents were actually misplaced by external auditors making it even more difficult to retrieve documents when a second request was made. In addition, the numbering system for vouchers is currently being reviewed so that unique numbering sequences will be used by each vouchering site, Harbor, Water, Department of Oil and Gas and Central accounts payable. This will facilitate the file clerks' ability to make sure that documents are received from the payment/audit process and filed. The file cabinets will be locked at night to prevent staff from removing documents without using the sign-out sheet. Sign-out sheets will be maintained. Sections will review scanning documents to enable retrieval of documents easily.

Cross-Training of Personnel

Observation

We noted that employees do not appear to be cross-trained to perform a variety of tasks within the accounting department.

Recommendation

All accounting department employees should be cross-trained to perform a variety of tasks in addition to their primary responsibilities. Such a policy will help reduce disruption in the day-to-day operations of the accounting department in the event of a planned or unplanned absence of an employee.

Management's Response

The City accepts KPMG's recommendation. Cross-training is obviously a central tenet of having a highly skilled and well-qualified staff to run a fiscal operation. The Department of Financial Management believes very strongly that cross-training is an essential part of the duties of each employee, not just the accounting staff. In fact, of the 37 staff employed in the Accounting Bureau, virtually all staff have been trained in at least one of the duties of another staff person either within their division or outside the division; however, further cross-training would be very beneficial.

One notable effort in this regard was the decision to hire one additional Accounting Operations Officer in fiscal year 2006 to job shadow and receive hands-on training from the City's most tenured Accounting Operations Officer who is retiring from the City in December 2007, after 29 years of service. It is expected that actions such as these will help to improve the level of cross-training within the Bureau. Obviously with



recent budget constraints, freezes on hiring and staff turnover, it has become increasingly difficult to accomplish even standard daily tasks assigned to the Bureau.

Lastly, the Department of Financial Management is often seen as a strong starting point for a career with the City, as staff are often trained in various critical functions. As such, as vacancies become available in other departments, City employees are highly sought after for their unique expertise, which leads to further vacancies and staff turnover, further reducing City capability to improve staff cross-training.

Consistent Recording of Transactions

Observation

During our audit, we identified transactions, that were recorded differently by various departments, particularly associated with the recording of grants in the grant system. While most departments use the grant system, there are some departments that do not. As such, the reporting of grant information at the Citywide level is more difficult to monitor.

Recommendation

We recommend that all departments record transactions in a systemic and consistent manner within the City's grant system to allow for more timely and accurate reporting Citywide.

Management's Response

The City accepts KPMG's recommendation and will work with the City Auditor's Office to ensure consistency in accounting practices, particularly as they relate to grants accounting, across all departments. In particular, the annual Federal Single Audit process is overly cumbersome and time consuming because of the lack of uniformity in the grants accounting processes, namely among non-City Manager Departments. To ensure consistency and improve the efficiency of the annual single audit process, the Department of Financial Management will work with City departments, including non-City Manager Departments to improve the uniformity and consistency of grants accounting processes.

Evaluation of Non-GAAP Policies

Observation

During our audit, we identified certain non-GAAP policies currently in place. The City concluded that all non-GAAP policies were immaterial to the financial statements; however, the City does not do a formal evaluation of the non-GAAP policies annually to determine the potential impact on their financial statements.

Recommendation

We recommend that the City implement policies and procedures to formally document their consideration of all non-GAAP policies at least annually to ensure the financial statement impact of the non-GAAP policies are immaterial to each respective opinion unit.



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Management's Response

The City has not intentionally implemented accounting practices from the onset that are inconsistent with GAAP; however, as accounting principles are modified, updated and/or revised, the City will continually review its practices to ensure continued compliance with GAAP.

Lack of Information Security Policies and Procedures

Observation

During our audit, we noted that the City has implemented procedures to address the issues surrounding information security, such as signing a confidentiality agreement upon commencing of employment. However, the City does not have formal IT Information Security and Safeguarding Policies and Procedures.

Recommendation

We recommend that management formalize the current procedures into policies and develop standard Information Security and Safeguarding Policies, such as:

- Information Security Infrastructure Requirements
- Password-Based Access Control
- Password Protection
- Virus Protection
- Internet Web Site Controls
- Standard Network System Configuration
- Network System Administration
- Application Security Administration
- Firewall and Router Security
- Transmission of Data/Encryption
- Physical/Perimeter Security and Data Center Protection

We recommend that the policies be formally communicated throughout the organization to users supporting and maintaining information systems and technology and are accessible and understandable to all persons. This ensures that management sets a clear direction and demonstrates support and commitment to information security through the issuance and maintenance of an information security policy.

We recommend an annual review and update of the IT Policies occur to integrate any new system, technology, and process improvements.

Management's Response

The City relies on information technology to meet operational, financial, and other business requirements. As technology has made information more accessible, the City has implemented procedures to properly



protect and maintain technology systems and related information in a secure environment. The City will formalize its various security procedures in a comprehensive information technology security policy that will guide those supporting and maintaining information systems, as well as those using the systems. The policy will be completed in Fiscal Year 2007.

Administrative Access – Inappropriate Administrative Access

Observation

During our audit, we noted that the Administrative Access is excessive and programmers have access to promote changes to production creating a segregation of duties conflict.

Utility Billing (UB): During our audit, we noted two users with excessive administration access: a Technical Support Officer and a System Support Specialist.

FAMIS: During our audit, we noted one user with administration access, which is not within the employee's direct job responsibilities and creates a segregation of duties conflict: the Director of Financial Management.

FAACS: During our audit, we noted six users with administration access, which is not within the job responsibilities and creates a segregation of duties conflict. However, we noted that as of September 30, 2006, management modified the access to restrict access; we retested this access control and determined access is restricted appropriately, thereby resolving this observation.

ADPICS: During our audit, we noted one user with administration access, which is not within the employee's direct job responsibilities and creates a segregation of duties conflict: the Director of Financial Management.

Tesseract: During our audit, we noted 14 users with administration access, which is not within the employee's job responsibilities and creates a segregation of duties conflict. Specifically, the support programmer has access to also promote changes to production.

SCLM Access to Migrate to Production: During our audit, we noted several programmers have SCLM access to promote changes to production causing a segregation of duties conflict. Access to SCLM should be limited to 2-3 individuals independent of any programming responsibilities.

Recommendation

We recommend that Administrative Access be restricted to users within the IT Department with a specific job need. Users with Administrator Access, making programming changes, and promoting those changes into production should be segregated.

As a consideration, where administration access cannot be restricted, management should implement a review of all new, deletion, and modifications made by the person to the application and programs to determine if the changes were appropriate and authorized. Someone independent of the process should perform this review (meaning an individual without Administrative Access).



Management's Response

FAACS: Management has created a new role without full system administration and assigned individual users to this or to other roles with more limited system access. System administration access has been reduced to two individuals, with an emergency backup.

FAMIS and ADPICS: Management plans to continue to allow the Director of Financial Management system administration access to these two systems. On a semiannual basis, other system administration staff will run a report of all system changes made and document their review of the report to ensure no inappropriate changes were made.

UB System: The access levels to the UB system are associated with RACF access. Analysis needs to be performed on how the two access levels are associated, and user access will be reviewed so only individuals whose job requires System Administrator access will be allowed to have such access.

Administrative Access levels for both the UB System and the Tesseract system will be reviewed with the Key Business Owner of each system to determine if the listed access levels are appropriate. This review will be done shortly, and then annually thereafter.

The programming staff that currently have Administrative Access to the UB and Tesseract systems use the access so they can move programming changes into the production environment. A policy change will be made to this process that will require TSD Operations to make all moves into production. Putting this into place will require written procedures and a training process for the Operations organization. This change (including creating procedures and training) will require approximately six months for full implementation.

Administrative Access is necessary for the lead programmer of the Tesseract System, as periodically global changes to the system are required that can only be done by a person with Administrative Access. An example would be if a Union contract requires its members to receive a percentage increase on a particular day. If a global change is not made, then each person's record would have to be manually changed, which would become resource intensive for the responsible business area.

In the short term, all programmers on the UB and Tesseract systems have been asked not to enter their own changes into the production systems. All changes going forward will be documented and verified by immediate management or senior programmers before being moved to production. Programmers will not be allowed to move their own changes into production. All changes to the system will be documented and signed off.

Lack of Review over Appropriateness of User Access and Segregation of Duties within Certain Applications

Observation

During our audit of the general control environment, we noted that management does not currently have controls in place to periodically review and document the appropriateness of user access to the financially significant applications, Utility Billing, Tesseract, Administrative Access to Active Directory, RACF, and SCLM. In addition, we noted that management does not currently have a control in place to periodically review segregation of duties access within the financially significant applications and applications supporting the financial applications (e.g., SCLM).



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Recommendation

Periodic review of users with access to financially significant applications helps prevent unauthorized access and potential financial misstatement due to unauthorized access. We recommend that the City implement a formal review, similar to the established procedures performed on the FAMIS system, of users with access to significant financial applications and Administrative Access to supporting applications including Active Directory, SCLM, and RACF.

Additionally, management should include the Data Center as part of the annual review or review data center access more frequently based on the rate of turnover.

This review should be performed at least annually to ensure that inappropriate system access is detected and remediated. Similar to the FAMIS procedures, this review should be performed in conjunction with the IT Department and business owners. Evidence of review by business owners and IT should be documented, signed and dated, and maintained for audit purposes.

Management's Response

Utility Billing and Tesseract system access will be reviewed initially, and access levels will be verified and adjusted with the business owner. Additionally, a yearly review of access levels to the system will be conducted, documented, and signed off by the business owner and the TSD support person. Documented meeting minutes of the System access review and files showing the access reviewed will be maintained for historical purposes. The first review of system access will occur shortly.

Access to Active Directory, SCLM and RACF will also be reviewed and verified in a similar manner and documented.

Lack of Enforced Password Parameter Complexity on the Active Directory System

Observation

During our audit of the general control environment, we noted that the City does not have complex password configurations implemented on the network Active Directory application. Users are not required to use a minimum password; passwords do not expire, and strong password complexity is not setup.

Recommendation

While we recognize the intricacy of implementing different passwords across multiple systems and to users, we recommend that management consider conforming to standards that will aid in enforcing an appropriate security level for Active Directory and as the first line of defense to access significant financial applications. This type of initiative will fortify the security posture of the City from a password controls perspective and reduce the risk exposure to the City.

Management's Response

Technology Services has received approval from the City Manager to implement a new network password policy that will require the use of a complex password. All accounts on the City's network shall automatically be prompted to change their passwords every 90 days. It should be noted that there are



additional levels of password security at the application level (e.g., passwords must be changed every 45 days).

The City intends to acquire and implement new software to facilitate the use of strong network passwords. The software will ensure that the strong network password can be synchronized with application passwords. Implementation of the software and strong network password policy will occur shortly.

Data Center Access – Lack of Access Review and Inappropriate Access

Observation

During our audit, we noted that Operators are onsite 24x7. The City has a daily data center access report of users that accessed the data center the day before. However, a control to review the report was not in place to identify if a person had obtained unauthorized access to the data center during the fiscal year ended September 30, 2006. Additionally, based on our initial inspection of the current authorized access to the data center, we noted 16 out of the 54 users appeared to have more access than was required by their job duties. The City modified the access to the data center and only 2 remaining users still appear to have more access to the data center than was required by their job duties.

Recommendation

We recommend that management implement a formal policy related to granting and revoking data center access and that access is restricted to personnel in the IT Department with a job specific need.

We recommend that at least monthly reviews be performed of who has access to the data center. In addition, this documentation should indicate evidence of review and the documentation should be maintained to support the review for audit purposes.

We recommend that a review of data center access activities be reviewed to validate that only authorized individuals enter the center.

We recommend that data center access be modified and be provided to only users with a specific job need and within the IT Department.

Management's Response

The City accepts KPMG's recommendation and had modified access, prior to September 30, 2006, to ensure that the appropriate personnel have access. KPMG retested this access control and determined that access is properly restricted, with the exception of two employees which the City feels access for these individuals is appropriate.

Lack of Formal Change Management Policies and Procedures

Observation – Pertaining to Tesseract, FAACS/ADPICS, Utility Billing

During our audit of the general control environment, we noted that management does not have formally documented policies and procedures related to systems and application change control. As with many departments supporting the applications, the City personnel have regular communications and appear to have several informal procedures in place. Therefore, IT personnel may view the need for formal documentation of key processes to be a low priority. However, we believe that many undocumented



practices are in place and have become an important part of the day-to-day operations and should be documented. In addition, we have noted that programmers have Administrative Access, which allows them to migrate their own program changes into production.

Based on our audit of the Tesseract system, KPMG notes that the system changes do follow an informal process and programming changes are documented into the program itself; however, formal documentation of appropriate approval, testing and user acceptance is not always obtained.

Based on our audit of the FAMIS/FAACS/ADPICS system, KPMG notes that the system patches and bug fixes management performed by the Financial Systems Officer in the Department of Financial Management do follow a formal process and programming changes are documented. However, changes made by the Technology Services programmers for other changes, such as modifying custom reports, follow an informal documentation process and appropriate approval, testing and user acceptance is not always obtained.

Based on our audit of the Utility Billing system, KPMG notes that the system changes are required to have Remedy tickets; however, KPMG could not obtain evidence in all cases that changes moved into production had tickets as some could not be identified. The group supporting this system does follow an informal process; however, formal documentation of appropriate approval, testing, and user acceptance is not always obtained. There is no additional review by IT management prior to the change moving into production.

Recommendation

We recommend that management strive to develop and implement formal IT change management policies, standards, and related procedures associated with system (e.g., infrastructure and configuration change) and application change control. In addition, management should ensure that the new developments are understood and communicated to all IT and supporting the City personnel.

Adequate formal change management procedures should be designed and implemented to ensure that changes to the key financial systems are made in a controlled manner. Specifically, we recommend that the following controls be implemented and enforced:

- All change requests should be formally authorized and documented by appropriate management and Business Owner;
- Appropriate change management software should be utilized for the Tesseract application to support the migration of programming changes to the live environment;
- Changes that are made to the IT systems are tested, validated, and approved prior to implementation into the production environment. Test criteria should be documented and applied for all testing. This is to ensure that the changes will meet the user requirements and that the changes will not have a negative impact on any of the existing;
- User acceptance sign-off should be obtained and maintained before changes are migrated to the production environment;



- Changes made to IT systems should be validated after promotion to production to confirm that the change did not impact the system functionality or data integrity and that unauthorized changes were not inadvertently or intentionally promoted;
- Access to migrate changes into production should be segregated from the responsibilities of program development. Only a limited number of personnel should have access to migrate changes to the production environment to ensure that this process is well controlled and only tested, authorized, and properly approved changes are migrated into production;
- Change procedures also be applied to both system and application configuration settings (e.g., tolerance setting such as check authorization limits; 3-way match; work flow flags to escalate for approval; and system configuration on hardware). Configuration settings are a key component of many information systems. Configuration settings frequently can impact the design and/or operating effectiveness of internal control over financial reporting;
- Emergency change provisions and controls are outlined to ensure that changes requiring immediate implementation are properly handled, allowing for timely change and no impact to systems and applications related to the financial reporting process; and
- Finally, we recommend that documentation of the activities above be maintained for future audit purposes.

Management's Response

A plan will be created to define what will be needed to implement a change management control system. At a high level, the plan will include the following:

- Procedures that define the type of documentation needed for system changes
 - Approval required to process system changes
 - Appropriate testing (QA and User) and proof of testing
 - Appropriate sign-off for each change prior to putting into production
- Requirements for an internal TSD system that will track all change requests
- Communication plan to business partners within the City notifying them of the internal change management system
- Deployment of the process to all systems maintained by TSD

Media Restoration – Lack of Evidence over Backup Tape Restores

Observation

During our audit of the general control environment, we noted that while management does perform periodic restores of database files and programs they have not formally tested to evaluate the quality of media and the ability to restore in the event of a disaster or unforeseen system crash. Additionally, evidence of the periodic database refreshes is not maintained displaying that data integrity was not compromised and the system continued to function as expected.



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Recommendation

We noted that management is currently performing data restores as part of their day-to-day business operations to support the end user community. We recommend that management develop and implement policies and procedures to formally test the effectiveness of the restoration process and the quality of backup media relevant to systems and applications used during the financial reporting process. We recommend that as part of an annual restore (whether to refresh a test environment or new environment) that testing be performed that confirms data integrity and system functionality are consistent with the production system. Additionally, evidence of the restoration test should include who performed the testing, dates, and documentation maintained.

Management's Response

Management plans to research the ability to implement a documented backup restoration and disaster recovery process for the Tesseract and UB systems. A plan to implement the process will be created by the end of September 2006. The plan will include:

- Defined time frames when backup and restoration will occur
- A checklist to be used to verify that the restore process was successful
- Full documentation of the process signed off by testers

* * * * *

Our audit procedures are designed primarily to enable us to form an opinion on the financial statements and, therefore, may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of the City's organization gained during our work to make comments and suggestions that we hope will be useful to you.

We would be pleased to discuss these comments and recommendations with you at any time.

This communication is intended solely for the information and use of management, City Council, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

KPMG LLP

City of Long Beach, California



COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006

Prepared by the Department of Financial Management
Michael A. Killebrew, Director

City of Long Beach
Comprehensive Annual Financial Report
For the Fiscal Year Ended September 30, 2006

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CITY OF LONG BEACH

OFFICE OF THE CITY MANAGER

333 WEST OCEAN BOULEVARD • LONG BEACH, CALIFORNIA 90802 • (562) 570-6711 • FAX (562) 570-6583

GERALD R. MILLER
CITY MANAGER

June 21, 2007

Honorable Mayor and City Council
City of Long Beach

In accordance with Section 302(e) of the City Charter, submitted herewith is the Comprehensive Annual Financial Report (CAFR) for the City of Long Beach (City) for the fiscal year ended September 30, 2006. This report has been prepared by the Department of Financial Management in accordance with generally accepted accounting principles (GAAP) and was audited in accordance with generally accepted auditing standards and government auditing standards by a firm of licensed certified public accountants.

This report contains management's representations concerning the finances of the City, and management assumes full responsibility for the completeness and reliability of all of the information presented. To provide a reasonable basis for making these representations, management of the City of Long Beach has established a comprehensive internal control framework that is designed both to protect the City's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with GAAP. As the cost of internal controls should not outweigh their benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable, rather than absolute, assurance that the financial statements are free from material misstatement. As management, we assert that to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City's basic financial statements have been audited by KPMG LLP, an international public accounting firm fully licensed and qualified to perform audits of the State and local governments within the State of California. The goal of the independent audit was to provide reasonable assurance that the City's financial statements for the fiscal year ended September 30, 2006 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. The independent auditors concluded that there was a reasonable basis for rendering an unqualified opinion that the City's basic financial statements for the fiscal year ended September 30, 2006 are fairly presented in conformity with accounting principles generally accepted in the United States. The independent auditors' report is presented as the first component of the financial section of this report.

The independent audit of the City's basic financial statements is part of a broader, federally-mandated "Single Audit" designed to meet the special needs of Federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the City's fair presentation of the financial statements, but also on the City's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of Federal awards. The City's separately issued "Single Audit" report is available by contacting the City's Department of Financial Management.

The City prepared this CAFR using the financial reporting requirements outlined in the Governmental Accounting Standards Board (GASB) Statement No. 34. This statement requires that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of a Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the report of the independent auditors in the accompanying financial section.

Profile of the Government

The City of Long Beach, incorporated in 1897, is the fifth largest City in the State of California, located within Los Angeles County in Southern California. The City occupies a land area of approximately 50 square miles and serves a population of approximately 493,000.

The City operates under a City Charter first adopted in 1921. The City Charter establishes the current Mayor-Council-City Manager form of government. The City is divided into nine councilmanic districts, with Councilmembers elected to represent their respective districts for up to two four-year terms. The citizens, as a whole, elect a Mayor to serve up to two, four-year terms. The citizens, as a whole, also elect a City Auditor, City Prosecutor and City Attorney to serve four-year terms; however, there are no term limits for these positions. The City Council and Mayor appoint a City Manager who serves at their discretion. The City Council is a policy-setting body that is responsible, among other things, for enacting ordinances, adopting the budget and appointing committees. The City Council appoints, among others, the members of the following commissions and boards:

- Citizen Police Complaint Commission
- Civil Service Commission
- Harbor Commission
- Parks and Recreation Commission
- Planning Commission
- Water Commission

The City Council also either serves as or appoints the voting majority of the governing board for the Parking Authority, the Southeast Resource Recovery Facility (SERRF) Joint Powers Authority, Housing Authority of the City of Long Beach, Long Beach Housing Development Company, Redevelopment Agency of the City of Long Beach, Long Beach Bond Financing Authority and the Long Beach Public Transportation Company.

The City Manager is responsible for directing and supervising the administration of all City Manager-directed departments of the City, to ensure that laws, ordinances, orders, resolutions, contracts, leases and franchises are enforced and executed, and for appointing all City employees except for classified civil service employees, the City Clerk, elected officers, and their appointees.

The City provides a full range of municipal services, including police, fire, disaster preparedness, public health and environmental services, library, parks and recreation, social services, engineering, public works, sanitation, planning and community development, gas, water, airport and towing services. The City operates and maintains a world-class international deep-water harbor, a nationally recognized convention center, beaches and marinas. The City also administers oil extraction operations under a trust agreement with the State of California.

The annual budget serves as the foundation for the City's financial planning and control. The City Manager must submit a proposed budget to the Mayor on or before July 1st and the Mayor must present that proposed budget along with recommendations to the City Council on or before August 1st. The City Council is required to hold one or more public hearings on the proposed budget and to adopt a final budget on or before September 30, the close of the City's fiscal year. The budget must be approved by fund and department. The City Council adopted the fiscal year 2006 budget prior to September 30, 2005 for all funds except for expendable trust funds. From the effective date of the budget, the amounts stated therein as proposed expenditures become appropriations to the various funds. The City Council may amend the budget by motion during the fiscal year. The City Manager may transfer appropriations within the departments or within a given fund, without City Council approval, provided that the total appropriations at the fund level and at the department level do not change. Transfers of appropriation between funds or departments require City Council approval. Total expenditures of each fund may not exceed fund appropriations, and total expenditures for each department may not exceed departmental appropriations. Appropriations lapse at the end of the fiscal year to the extent they have not been expended or encumbered.

A Year of Achievement and Change

In September 2006, culminating a multi-pronged effort spanning four years, the Long Beach City Council adopted a budget that eliminated the final portion of the projected \$102 million structural deficit that had challenged the City since 2003. Led by input from the Mayor, City Council and the community, management's quest to eliminate the structural deficit was conducted with sensitivity to community needs while creatively maximizing existing resources and creating new revenue streams. The accomplishment is even more noteworthy considering it was achieved without employee layoffs or major reductions in core City services, at the same time adding 80 police officers to the force.

As the community expressed satisfaction with the resolution of the City's financial crisis, they bid an affectionate farewell to Mayor Beverly O'Neill, who left office after twelve illustrious years at the City's helm. Mayor O'Neill was succeeded on July 15, 2007 by former Southern California Edison President, Bob Foster, who was overwhelmingly elected to his first term in office.

In addition, three new City Councilmembers were elected in the Second, Third and Fifth Districts, along with a new City Auditor. The representative for the Sixth District was elected to the State Legislature in November 2006 and was replaced in a special election held on May 1, 2007.

New individuals in the executive, legislative and managerial branches of City government will lead to a logical re-examination of City priorities and focus areas; nevertheless, the challenge of maintaining the City's fiscal integrity and solvency will continue.

Balancing Infrastructure Requirements With Limited Revenues

Long Beach was settled over a century ago, and large sections were developed during and immediately after World War II. In the oldest sections of the City, the infrastructure is in urgent need of maintenance, repair or replacement. Streets, alleys, sidewalks and natural gas mains all require ongoing and expensive maintenance. To address the concerns of residents, there have been larger investments in capital improvement projects in recent years. There is, however, a growing desire both in City government and in the community to accelerate the pace of infrastructure remediation and to find resources to fund it. The recently approved State Proposition 1B will result in \$15 million in increased funding for street repairs in Long Beach over the next three years, albeit one-time. The structural deficit taught us there must be ongoing vigilance on how City expenditures are identified and approved. Likewise, there is increased scrutiny in the community and by the City Council on whether expenditures are distributed equitably throughout the City.

Recruiting and Retaining A High Quality and Diverse Workforce

Negotiated pension benefits and escalating medical costs continue to exert pressure on retirement and benefit funding. Increasingly, personnel related costs, such as public safety pay and post-retirement benefits threaten to absorb all or most anticipated revenue growth. However, management does recognize that the City must remain competitive with surrounding municipalities to attract and retain the highest quality employees, so salary pressures are expected to remain a major issue. Moreover, the City Council has expressed an ongoing interest in recruiting a workforce that reflects the cultural and ethnic diversity of the city at large. USA Today named Long Beach "America's Most Diverse City" and both management and elected officials are committed to encouraging and enhancing workforce diversity within the guidelines prescribed by State and Federal law. In recognition of the challenges inherent in recruiting and retaining a qualified diverse workforce, an optimization study focusing on those efforts is underway.

Continued Stimulation of Economic Growth and Commercial Development

Long Beach is the 33rd largest city in the United States, larger than Cleveland, Atlanta, Miami, Minneapolis, Pittsburgh and Kansas City. The transformation from a declining Navy town to a thriving center for business, tourism and upscale residential development continues at a steady pace.

Even with the recent stabilization of property values nationwide, Long Beach continues to attract investments in both commercial and residential development. In the downtown district a "critical mass" is being achieved in the creation and build-out of residential, office, retail and entertainment space. The resurgence of the Long Beach downtown has been noted in both regional and national media, recently being named one of the "Top Ten Turnaround Downtowns" by the Urban Land Management Institute.

The City is also in the seminal phases of the Douglas Park development, located adjacent to the Long Beach Airport. Douglas Park is comprised of 238 acres in the City of Long Beach and 23 acres in the City of Lakewood and will feature:

- Up to 3.1 million square feet of commercial floor area including office, research and development, and light industrial;
- Up to 400 hotel rooms; and,
- Up to 200,000 square feet of new, neighborhood, retail amenities.

An existing Boeing facility will remain to accommodate continuing work on the C-17 Globemaster, the work-horse of the U.S. military airlift capability.

In addition, in fiscal year 2006, the Economic Development Bureau provided 323 loans totaling more than \$25 million dollars to area businesses. Further, over 900 \$2,000 start-up grants have been awarded to small businesses. On the residential front, there will be more than 5,000 additional living spaces downtown by 2010, bringing in more than 10,000 new full-time residents. The City's efforts are being directed all across the economic spectrum. For example, the Long Beach Enterprise Zone program has issued over 16,500 vouchers, each representing a job for an economically disadvantaged individual, while providing Long Beach businesses with more than \$300 million in State income tax credits. Moreover, the Enterprise Zone was expanded to include 72 percent of the City, a marked increase from the existing enterprise zone that encompasses only 42 percent of the City. The Enterprise Zone was also extended for an additional 15 years further strengthening the future of the local economy.

A New Sense of Urgency on the Environment

Environmental concerns have achieved greater importance and attention by residents and their elected representatives. Economic advancement is hollow without assurances that the physical well-being of our planet and future generations will not be harmed, but rather improved through our actions. The future sustainability of any city depends on the health of its natural environment. In Long Beach, environmental stewardship means long-term planning and a commitment to clean neighborhoods, streets, water, parks and beaches. With the enthusiastic support of environmental activists, the City Council in 2006 authorized the formation of an Environmental Commission. In addition, an Alternative Energy Optimization Task Force has been convened with membership and input from various City departments whose charge is to ensure the most efficient and environmentally friendly utilization of energy in all City operations.

Mark Twain Library

The Mark Twain library, a new 16,000 square foot facility, will be dedicated in mid-2007 as the City's first 21st Century library. The new library will be the first public building in Long Beach certified by LEED (Leadership in Energy and Environmental Design). LEED is a certification program administered by the U.S. Green Building Council. The library will be certified at the "silver" level, higher than the basic LEED certification level due to the building's construction designed to conserve water and energy, minimize waste by using recycled products, promote a healthy indoor environment and demonstrate innovation in design.

Convention Business and Tourism

Under the auspices of the Long Beach Convention and Visitors Bureau, tourism and convention bookings continued to stimulate the City's economy. The Bureau reported that over 6,000,000 people visited the City in 2006, either as attendees at conventions or as private tourists.

Plans are proceeding for new downtown hotels in close proximity to the Convention Center that will make the City even more attractive to groups considering a Southern California locale. The City's scenic ocean front setting is a convincing selling point that most other cities are unable to compete against.

The Port of Long Beach

The significance of the Port of Long Beach and its adjacent neighbor, the Port of Los Angeles, to the regional, state and national economy cannot be overstated. In 2006, the Port handled 85 million metric tons of cargo, an increase of 5.3 percent over 2005. Over 300,000 jobs (1 in 22) in the five-county Southern California region are directly related to the port, as are almost 1.5 million jobs throughout the nation.

The ongoing positive economic impact of the Ports has been tempered in recent years by increasing environmental awareness and post 9/11 security concerns. The Port is making a concerted effort to address environmental issues resulting from its size and growth. Infrastructure is being developed to permit berthed vessels to utilize cold ironing, a process that allows them to be powered by clean, shore-based electrical power rather than running their diesel engines. The Port of Long Beach's "Green Port" policy, adopted in January 2005, entered its second year of existence and is aimed at reducing air emissions, protecting aquatic ecosystems, removing contaminated soils and improving the quality of water in Long Beach's Harbor.

The federal government provides the majority of funding for seaport security improvements in the United States. Since 9/11, the federal government has increased funding for port security by over 500 percent, from \$259 million a year in 2001 to about \$1.6 billion a year in 2005, the most recent year for which final figures are available. Long Beach public safety officials are continuing to work with County, State and Federal authorities to address port security concerns, as well as critical funding issues.

The Airport

Despite the decision of American Airlines to cease operations at Long Beach Airport in 2006, there were 12,834 airline landings at the facility or only 1.4 percent fewer landings than in 2005. Passenger traffic for 2006 totaled 2,758,362, a reduction of 9.1 percent. All flight slots have since been reactivated by other airlines. The airport remains a vital component of both financial health and convenient service for Long Beach residents and visitors alike, but its very existence remains a source of concern for residents who live in the landing or take-off flight paths. The City remains committed to adhering to limits mandated by its court-approved Noise Ordinance, concurrent with providing for respectable airport facilities.

The approval of the Environmental Impact Report by the City Council has moved the airport terminal improvements closer to reality after airport size and project scope decisions are finalized.

Neighborhoods and Housing

In recognition of the oft-stated sentiment that the strength of a city is in its neighborhoods, there continues to be an increased focus on the quality of life throughout the many diverse and historic residential areas of Long Beach.

Given resource constraints, the pace of ongoing sidewalk, street and other infrastructure repairs is being accelerated at the direction of the Mayor and City Council. The City is also continuing its community outreach for input on maintaining and prioritizing services; there is tacit agreement among all parties that quality neighborhoods and housing involve a mix of good design, long-term planning, consistent rules and enforcement, regular upkeep, historic preservation and clean streets.

The City has also increased graffiti and nuisance abatement efforts and officials are continually seeking community input on both maintaining and prioritizing core services. The City's multi-neighborhood library system is one such popular service, and the Mayor's actions to restore prior cuts exemplify the City's commitment to respond to citizen concerns. As mentioned previously, the City is constructing its first branch library in over 10 years.

Although the rise in housing values has moderated somewhat, coastal property is still highly valued. There is widespread concern among officials and residents about the ability of low- to moderate-income residents to find adequate housing in the current market. Several current projects are addressing these concerns including:

- Jamboree Housing's Puerto del Sol, which will open in 2007, will provide 64 rental apartments for very-low income residents and families.
- Site acquisition for the Menorah Housing Senior Housing Project was completed during 2006. Construction will begin during the summer of 2007 and is estimated for completion in 2008. The project has 66 affordable units.

- Financial assistance was approved for the Villages at Cabrillo for the construction of 80 rental units for moderate-income buyers at the Neo Zoe townhome development.
- DECRO Long Beach, with the use of Federal Home Investment Partnership Program dollars, completed the major rehabilitation of an additional 32 of the 320 units scheduled for rehabilitation, for a completed total to date of 158 units.

Performance Based Budgeting - A Future Full of Promise

The City of Long Beach is committed to prudent management of resources and maintaining transparency, accountability and ongoing communication with the community. Under the guidance of the City Manager's Office and the Department of Financial Management, City departments began the final implementation of the City's performance-based management initiative, Focus On Results (FOR Long Beach). FOR Long Beach uses specific performance measures to evaluate City services and make decisions about the City's operations. City management has expressed a high degree of confidence that the skillful utilization of performance management data will increase accountability at all levels of government and better align City operations with Mayoral, City Council and community priorities. City Manager departments are now tracking specific performance measures on a monthly and quarterly basis.

Cash Management Policies and Practices

To maintain flexibility in cash management, the City employs a pooled cash system (see Notes 2 and 4 to the Basic Financial Statements in the Financial Section). Under the City's pool, all available cash is invested daily in various securities, while maintaining reasonable liquidity to meet maturing obligations and maximizing returns through the use of competitive rate comparisons from various investment sources.

The City's pooled investments for fiscal year 2006 averaged \$1,362,707,000 and earned an annual average return of 3.69 percent, reflecting a 101 basis point increase over the prior year. The City's pooled investments averaged \$1,259,597,000 for fiscal year 2005 and earned an annual average return of 2.68 percent.

The rate of return demonstrates that the City maintained a reasonable and safe return on its investments during fiscal year 2006, while employing prudent investment policies to safeguard the City's cash assets and maintaining adequate levels of liquidity. The City's Department of Financial Management presents cash and investment reports to the City Manager, Investment Advisory Committee and City Council each fiscal quarter. The City Auditor also performs a quarterly independent audit of City cash accounts and investments for adherence to the City's Statement of Investment Policy. The City's general investment strategies are set forth in a formal Statement of Investment Policy, which has been written in accordance with State law and is reviewed and approved annually by the City Council.

Risk Management

The City is self-insured for workers' compensation and tort liability. City management believes that sufficient funds have been accumulated in the City's Insurance Internal Service Fund to meet losses as they arise. Various risk control techniques are also in place, including safety training for employees and the inclusion of appropriate legal provisions in third party contracts and leases that are incorporated to minimize risk of loss. Additional information about the City's self-insurance programs is reported in Note 14 to the Basic Financial Statements in the accompanying Financial Section of this report.

Debt Administration

During fiscal year 2006, the City and its agencies issued approximately \$85.8 million in debt as follows:

Fund / Agency	Amount (millions)	Purpose
Redevelopment Agency	\$ 35.0	Downtown and North Long Beach Project Areas
Tidelands Fund / Rainbow Harbor	50.8	Refinancing of Rainbow Harbor Bonds
	<u>\$ 85.8</u>	

More detailed information about the debt position of the City is reported in Notes 8 through 11 of the notes to the Basic Financial Statements in the accompanying Financial Section of this report, as well as in the Schedules of Debt Capacity of the accompanying Statistical Section that complies with the new Governmental Accounting Standards Board (GASB) Statement No. 44.

Pension and Other Post Employment Benefits

The City provides full-time employees retirement and disability benefits, including annual cost-of-living adjustments and death benefits through the California Public Employees' Retirement System (CalPERS), agent multiple-employer public employee defined benefit pension plan. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by State statute and City ordinance. The contribution requirements to the pension plan are established and amended by CalPERS. The City's funding policy is to make contributions as determined by CalPERS. Based on the latest actuarial valuations by CalPERS, the City contributed the employer portion of 11.325 percent and 15.100 percent of salary for miscellaneous and safety employees respectively in fiscal year 2006.

Based on the latest CalPERS actuarial valuation as of June 30, 2005, the miscellaneous employees' pension plan was funded at 95.4 percent and the safety employees' plan at 103.0 percent, compared to 95.9 percent and 102.2 percent, as of June 30, 2004, respectively.

The City provides Special Status Contractors, and Seasonal and Temporary employees retirement, death and disability benefits through a Public Agency Retirement System (PARS) defined benefit single employer retirement plan.

The PARS plan is administered through a third-party administrator. The City's funding policy is to make the contribution as determined by the PARS plan's actuary. The PARS plan was funded at 166 percent as of September 30, 2006 and the City contributed the full Annual Pension Cost of 0.34 percent based on the actuarial valuation for September 30, 2006.

The City also provides post-retirement health care benefits under the provisions of the City's Personnel Ordinance where upon retirement from the City, retirees, their spouses and eligible dependents are allowed to use the cash value of the employee's accumulated unused sick leave to pay for health, dental, vision, short- and long-term disability and long-term care insurance under the City's Retired Employees' Health Insurance Program. As of September 30, 2006, there were 769 participants in this program at a cost of \$5,527,400 during the fiscal year. Consistent with Governmental Accounting Standards Board (GASB) No. 45 requirements, the City has hired an independent actuarial firm to analyze and calculate the City's unfunded accrued actuarial liability for these other post employment benefits. The results of this study will be available in 2007, in sufficient time to implement GASB 45 by the required deadline of September 30, 2008.

Additional information on the pension arrangements and post employment health-care benefits can be found in Notes 12 and 13 in the accompanying Financial Section of this report.

Independent Audit

Section 803 of the City Charter requires the City Auditor, at least once in each fiscal year, to audit the financial statements of the City. Immediately upon completion of such audit, the City Auditor shall make and file with the City Clerk a written report thereof. The City Auditor contracted with an independent certified public accounting firm for the audit of the City's Basic Financial Statements for the fiscal year ended September 30, 2006. The Independent Auditors' report has been included in this report.

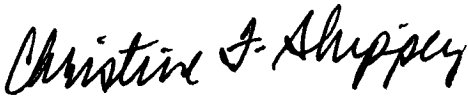
Awards

The California Society of Municipal Finance Officers (CSMFO) awards its Certificate of Award for Outstanding Financial Reporting to recognize those entities whose comprehensive annual financial reports are judged to conform substantially to the highest standards for preparation of state and local government financial reports. The Comprehensive Annual Financial Report (CAFR) of the City of Long Beach has been awarded this certificate by the CSMFO for the fiscal year ended September 30, 2005.

Acknowledgments

We wish to acknowledge the excellent participation and professional contribution of the Department of Financial Management and other City departments' staff in the preparation of this document. In particular, we would like to acknowledge the very special contribution of Ms. Claudia Santos, Accounting Operations Officer, for her 29 years of dedication and service to the City of Long Beach. The CAFR requires a considerable amount of effort and time, in addition to normal daily job duties. The continued dedication of all staff involved in the development of this Comprehensive Annual Financial Report is most appreciated.

Respectfully submitted,



for

GERALD R. MILLER
City Manager



MICHAEL A. KILLEBREW
Director of Financial Management

California Society of Municipal Finance Officers

Certificate of Award

Outstanding Financial Reporting 2004-05

Presented to the

City of Long Beach

*This certificate is issued in recognition of meeting professional standards and criteria in reporting
which reflect a high level of quality in the annual financial statements
and in the underlying accounting system from which the reports were prepared.*

February 24, 2006



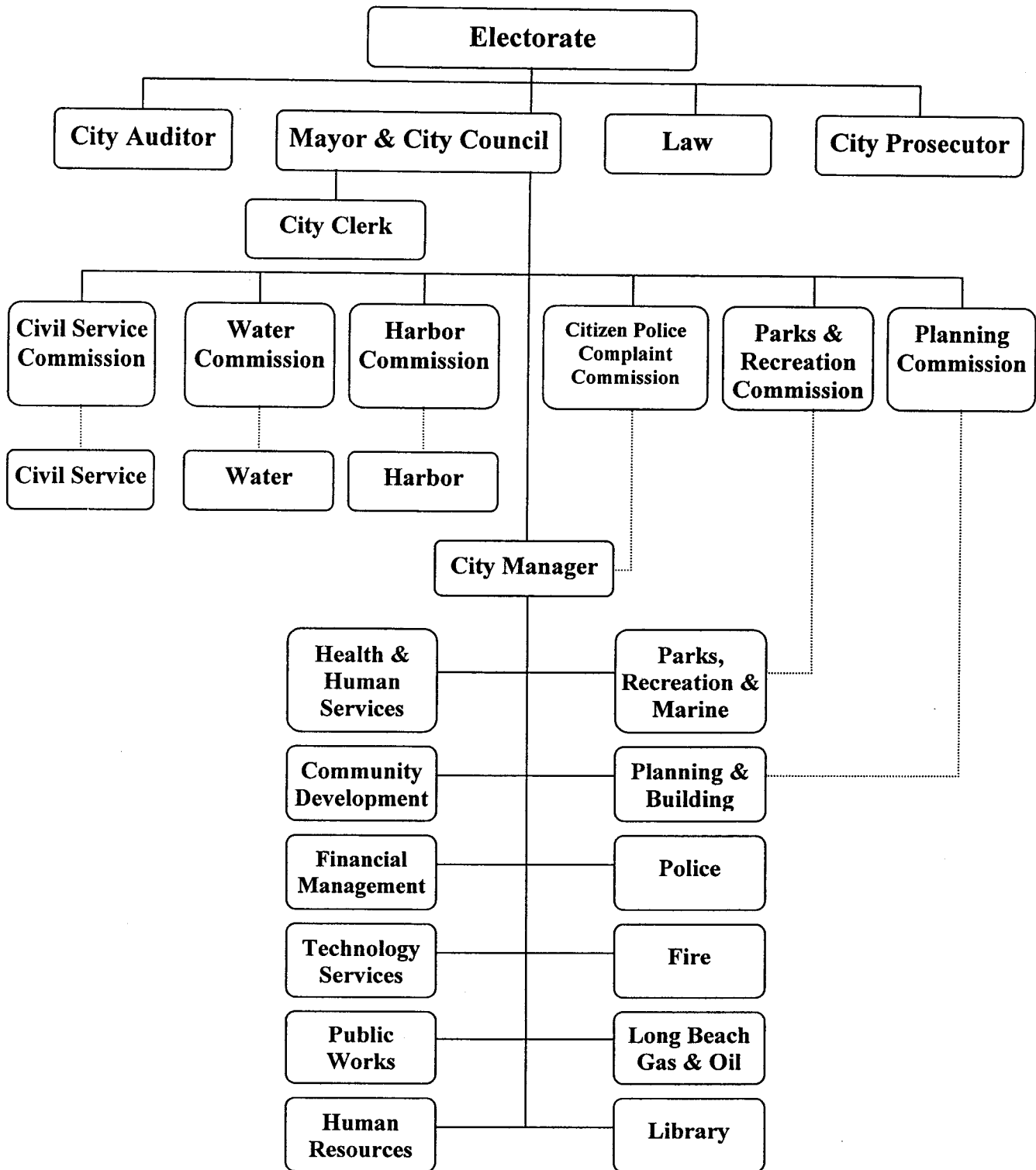

Jesse Takahashi, Chair
Professional & Technical Standards Committee

Dedicated to Excellence in Municipal Financial Management

LONG BEACH CITY GOVERNMENT

ORGANIZATION CHART

As of September 30, 2006



Current
Directory of City Officials *

Bob Foster
Mayor

Bonnie Lowenthal
Vice-Mayor
1st District

Suja Lowenthal
Councilmember
2nd District

Gary DeLong
Councilmember
3rd District

Patrick O'Donnell
Councilmember
4th District

Gerrie Schipske
Councilmember
5th District

Dee Andrews
Councilmember
6th District

Tonia Reyes Uranga
Councilmember
7th District

Rae Gabelich
Councilwoman
8th District

Val Lerch
Councilmember
9th District

Elected Department Heads

City Attorney
City Auditor
City Prosecutor

Robert E. Shannon
Laura Doud
Thomas M. Reeves

Appointed by Council or Commission

City Clerk
Executive Director - Civil Service
Executive Director - Harbor
General Manager - Water

Larry Herrera
Mario R. Beas
Richard D. Steinke
Kevin L. Wattier

City Manager
Gerald R. Miller

Assistant City Manager
Christine F. Shippey

Deputy City Managers
Reginald I. Harrison
Curtis Tani (Acting)

Director of Community Development
Director of Financial Management
Director of Health and Human Services
Director of Human Resources and Affirmative Action
Director of Library Services
Director of Long Beach Gas and Oil
Director of Parks, Recreation and Marine
Director of Planning and Building
Director of Public Works
Director of Technology Services
Fire Chief
Chief of Police

Patrick H. West
Michael A. Killebrew
Ronald Arias
Suzanne R. Mason
Eleanore Schmidt
Christopher J. Garner
Phil T. Hester
Suzanne Frick
Christine F. Andersen
Jack Ciulla (Acting)
David W. Ellis
Anthony W. Batts

* City Officials as of date of printing



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355 South Grand Avenue
Los Angeles, CA 90071-1568

Independent Auditors' Report

The Honorable Mayor and City Council
City of Long Beach, California:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Long Beach, California (the City) as of and for the year ended September 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Airport Enterprise Fund, Parking Authority (subfund of Tidelands Fund), and Air Quality Improvement Fund (subfund of Transportation Fund), which represent the following percentages, respectively, of the assets, net assets or fund balance, and revenues of the following opinion units:

Opinion units	Assets	Net assets or fund balance	Revenues
Governmental activities	<1%	<1%	<1%
Business-type activities	2.25	3.21	2.47
Aggregate remaining fund information	14.17	29.47	5.01
Tidelands fund	—	—	<1

Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the Airport Enterprise Fund, Parking Authority, and Air Quality Improvement Fund, are based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Long Beach, California, as of September 30, 2006 and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparisons for the General Fund, the Housing Development Fund, and the Community Development Grants Fund for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 28, 2007 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 21 and the schedule of the City's pension plans funding progress on pages 125 and 126 are not a required part of the basic financial statements, but are supplementary information required by the U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying information identified in the table of contents as the introductory section, the additional financial information section, and the statistical section is presented for purposes of additional analysis and is not a required part of the basic financial statements. The combining and individual fund statements and schedules in the additional financial information section have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of the other auditors, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.

KPMG LLP

Los Angeles, California
June 28, 2007

Management's Discussion and Analysis

As management of the City of Long Beach (the City), we present to readers of the City's basic financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2006. We encourage readers to consider this information in conjunction with additional information included in our letter of transmittal.

Financial Highlights

Government-wide Basis:

- The restricted and unrestricted assets of the City exceeded its liabilities as of September 30, 2006 by \$3.4 billion (*net assets*). Of this amount, \$627.1 million may be used to meet the government's ongoing General Fund, grant, capital project and business-type activity obligations to citizens and creditors; however, expenditure restrictions apply to the grant funds and much of the Business-type and capital project funds.
- The City's total net assets, including all funds, increased by \$316.3 million, reflecting a \$172.4 million increase in net assets for Business-type activities and a \$143.8 million increase in net assets for Governmental activities.
- The City's total net long-term liabilities, including such items as bonds, notes and leases payable, accrued self-insured claims and retiree benefits, decreased by \$158.7 million or 5.6 percent during the fiscal year. Tax allocation bonds totaling \$35.0 million were issued to support redevelopment activities in the Downtown and North Long Beach project areas. The City also issued \$50.8 million in debt to refund the 1999 Rainbow Harbor Lease Revenue bonds and the 1997 Aquarium Parking Structure Certificates of Participation. Accrued self-insured claims decreased by a net \$29.3 million or 21.9 percent due to legislative and programmatic reforms that are reducing Worker's Compensation costs considerably. These decreases were slightly offset by a \$1.0 million increase in retiree health care. The City also entered into \$11.0 million in new capital leases for computers, fire trucks, a fireboat and other equipment. Of this amount, \$8.1 million supports public safety activities within the police and fire departments.

Fund Basis:

- As of September 30, 2006, unreserved fund balance for the General Fund was \$35.5 million, or 10.0 percent of total General Fund expenditures. Designated General Fund reserves of \$34.4 million, coupled with a \$2.5 million general purpose reserve allowed by the City Charter and listed under undesignated comprise the Emergency Reserve. A long-term advance of \$8.2 million from the Subsidence Fund is also shown and resulted from State legislation and will be repaid over 20 years, interest free, beginning in 2007.
- As of September 30, 2006, the City's governmental funds reported an unreserved fund balance deficit of \$8.9 million. The governmental funds, excluding the General Fund, reported combined unreserved deficit fund balances of \$44.3 million. This consists of a \$148.8 million deficit in the Redevelopment Capital Projects Fund for long-term advances due to other funds and \$6.7 million in advances to special revenue funds, offset by \$111.1 million in fund balances designated for subsequent years' appropriations. The long-term advances will be repaid with future property tax increment and grant funds when received.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Long Beach's basic financial statements. The City's basic financial statements are comprised of three components: government-wide financial statements, fund financial statements, and notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements, including non-major fund financial statements and a statistical section.

Government-wide financial statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents consolidated information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information on how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods, such as revenues pertaining to uncollected taxes or expenses pertaining to earned but unused employee vacation and sick leave.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues, such as grant revenue (*governmental activities*), from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). Governmental activities of the City include legislative and legal, general government, public safety, public health, community and recreational, public works and City oil operations. Business-type activities include those related to gas, water and sewer utilities, airport and solid waste management operations, towing, tidelands, marina and Rainbow Harbor area operations, as well as tidelands oil revenue operations and the Port of Long Beach.

The government-wide financial statements include not only the City of Long Beach itself (known as the *primary government*), but also a legally separate transportation company for which the City of Long Beach is the sole shareholder and, therefore, has authority to affect the company. Financial information for this *component unit* is reported separately from the financial information presented for the primary government itself. Also included in the governmental activities of the government-wide financial statements are the Housing Authority of the City of Long Beach, the Long Beach Housing Development Company, the Redevelopment Agency of the City of Long Beach, the Long Beach Financing Authority and a portion of the Long Beach Bond Finance Authority.

The business-type activities portion of the government-wide financial statements also includes the Southeast Resource Recovery Facility, a portion of the Long Beach Bond Finance Authority, the Long Beach Capital Improvement Corporation and the Parking

Authority of the City of Long Beach. Although legally separate from the City, these component units are blended with the primary government because of their close governance by, or financial relationships with the City.

Fund financial statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Funds of the City are divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating the City's near-term financial resources.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Reconciliations are provided for both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances, to facilitate a comparison between *governmental funds* and *governmental activities*.

The City maintains numerous individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Housing Development Fund, Community Development Grants Fund, General Capital Projects Fund, and the Redevelopment Capital Projects Fund, each considered to be major funds. Data from the remaining governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements*, located in the Additional Financial Information section of this report.

The City adopts an annual appropriated budget for its funds. A budgetary comparison is provided for each of the City's governmental funds to demonstrate compliance with their budgets. The budgetary comparison statements for the major governmental funds are located in the basic financial statements, while the statements for the non-major governmental funds and capital projects are included in the Additional Financial Information section of this report.

Proprietary funds are generally used to account for operations that provide services to the general public on a continuing basis or to internal City departments. Proprietary funds provide the same type of information contained in the business-type activities portion of the government-wide financial statements, only in more detail. The City maintains two different types of proprietary funds, enterprise and internal service.

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for the gas and water utilities, solid waste management operations, tidelands operations, tideland oil revenue operations and the port, all of which are classified as major funds. The City also reports enterprise operations for the sewer utility, airport, towing operation and land subsidence fund as non-major enterprise funds shown in the Additional Financial Information section of this report.

Internal Service funds are accounts used to accumulate and allocate certain support costs internally among the City's various functions. The City uses internal service funds to account for: the operation and financing of the Civic Center complex; information technology assets and services, lease-purchase of equipment, and reprographics equipment and services; the operation, maintenance and replacement of the City's vehicle fleet and related facilities; the City's risk management and self-insurance programs, including workers compensation and general liability; and, compensated absences, payroll taxes, health and retirement benefits.

Because these services predominantly benefit governmental rather than business-type functions, they are incorporated into *governmental activities* in the government-wide financial statements. Internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of *combining statements* in the Additional Financial Information section of this report.

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds include Private Purpose Trust Funds such as the Miller Library Fund and the Mayor's Fund for the Homeless, and Agency Funds such as special parking and business assessment districts. Fiduciary funds are *not* reflected in the accompanying government-wide financial statements because the resources of those funds are *not* available to support the City's programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The fiduciary fund financial statements can be found in the Basic Financial Statements section of this report.

Notes to the Basic Financial Statements

The Notes to the Basic Financial Statements provide additional information and narrative disclosures that are essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the Basic Financial Statements and accompanying Notes, this report also presents certain *required supplementary information* concerning the City's progress in funding its obligation to provide pension benefits to its employees.

The combining statements referred to above in connection with non-major governmental funds and internal service funds are presented in the Additional Financial Information Section, along with information regarding capital assets.

Government-Wide Financial Analysis

Since fiscal year 2002, the City has presented its financial statements using the reporting model required by the Governmental Accounting Standards Board Statement No. 34 (GASB 34), Basic Financial Statements – and Management's Discussion and Analysis (MD&A) – for State and Local Governments. Two years of financial information in the GASB 34 format are presented.

Analysis of Net Assets

As noted earlier, net assets may serve over time as a useful indicator of changes in a government's financial position. In the City of Long Beach, assets exceeded liabilities by \$3.4 billion at the close of fiscal year 2006, up \$316.3 million from fiscal year 2005.

Net Assets
September 30, 2006 and 2005
(In Thousands)

	Governmental Activities		Business-type Activities		Totals	
	2006	2005	2006	2005	2006	2005
Assets:						
Current and Other Assets	\$ 822,871	\$ 846,693	\$ 1,782,113	\$ 1,691,471	\$ 2,604,984	\$ 2,538,164
Capital Assets	721,567	626,055	3,061,704	3,075,556	3,783,271	3,701,611
Total Assets	1,544,438	1,472,748	4,843,817	4,767,027	6,388,255	6,239,775
Liabilities:						
Current Liabilities	169,520	188,429	225,443	272,007	394,963	460,436
Noncurrent Liabilities, Net	775,974	829,212	1,788,993	1,838,068	2,564,967	2,667,280
Total Liabilities	945,494	1,017,641	2,014,436	2,110,075	2,959,930	3,127,716
Net Assets:						
Invested in Capital Assets, Net of Related Debt	209,230	99,122	1,572,117	1,564,750	1,781,347	1,663,872
Restricted	496,094	474,313	523,769	505,875	1,019,863	980,188
Unrestricted (Deficit)	(106,380)	(118,328)	733,495	586,327	627,115	467,999
Total Net Assets	\$ 598,944	\$ 455,107	\$ 2,829,381	\$ 2,656,952	\$ 3,428,325	\$ 3,112,059

The largest portion of the City's net assets (52.0 percent) reflects its investment of \$1.8 billion in capital assets (for example, land, buildings, infrastructure, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be liquidated to fund these liabilities.

An additional portion of the City's net assets, \$1.0 billion (29.7 percent) represent resources that are subject to external restrictions on how they may be used. The restricted assets consist of 19.3 percent for debt repayment, 22.6 percent for capital projects, and 7.3 percent for grant funds with the balance related to various City special revenue and permanent funds, and a commitment by the Port of Long Beach's Harbor Fund for the Alameda Corridor. The remaining balance of *unrestricted net assets* in all City funds of

\$627.1 million may be used to meet the government's ongoing obligations to citizens and creditors; however, specific expenditure restrictions apply to the grant funds, and much of the business-type and capital project funds.

As of September 30, 2006, the City is able to report positive balances in all three categories of net assets, for the government as a whole and for business-type activities. The governmental activities unrestricted net assets deficit in the amount of \$106.4 million is mainly due to deficits in the Internal Service Funds and in the Housing Authority Fund (See Note 15 in the accompanying notes to the basic financial statements). The deficit decreased from fiscal year 2005 by \$11.9 million from the comparable deficit of \$118.3 million mainly due to decreases in amounts required to fund outstanding debt service obligations and complete approved capital projects.

Analysis of Changes in Net Assets

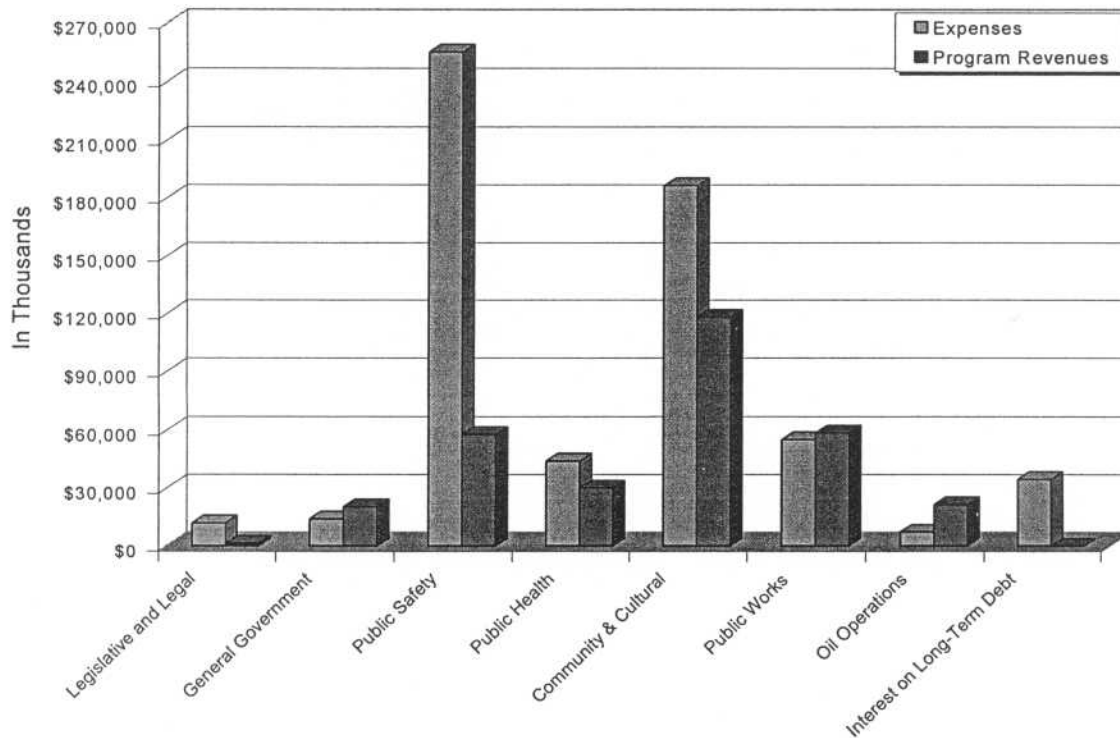
The City's net assets increased \$316.3 million in the fiscal year ended September 30, 2006. The increase is mainly due to operations in the business-type funds including the Harbor Fund for \$154.0 million, contributions of easements and public rights-of-way in governmental activities for \$80 million and other changes explained in the governmental and business-type activities discussions below.

Changes in Net Assets September 30, 2006 and 2005 (In Thousands)

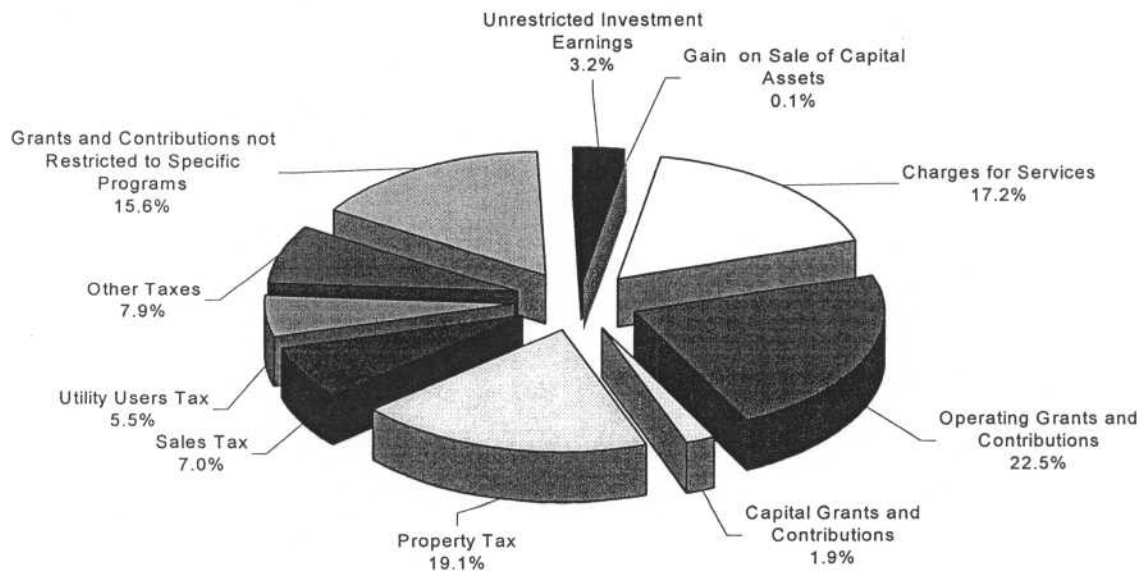
	Governmental Activities		Business-type Activities	
	2006	2005	2006	2005
Revenues:				
Program Revenues:				
Charges for Services	\$ 127,301	\$ 132,492	\$ 1,000,573	\$ 888,954
Operating Grants and Contributions	166,426	142,011	1,184	2,520
Capital Grants and Contributions	13,726	11,489	8,947	25,787
General Revenues:				
Taxes:				
Property	141,335	123,924	-	-
Sales	51,557	48,216	-	-
Utility Users	40,637	39,216	-	-
Other	58,291	51,238	-	-
Grants and Contributions Not Restricted to Specific Programs	115,668	39,205	-	-
Unrestricted Investment Earnings	23,520	16,213	42,021	27,599
Gain (Loss) on Sale of Capital Assets	806	810	(2,041)	(665)
Total Revenues	<u>739,267</u>	<u>604,814</u>	<u>1,050,684</u>	<u>944,195</u>
Expenses:				
Legislative and Legal	12,003	10,313	-	-
General Government	13,988	25,808	-	-
Public Safety	255,188	280,415	-	-
Public Health	44,024	43,874	-	-
Community & Cultural	186,528	177,210	-	-
Public Works	55,009	58,783	-	-
Oil Operations	7,192	6,367	-	-
Interest on Long-Term Debt	34,554	30,831	-	-
Gas	-	-	99,656	89,463
Water	-	-	62,480	62,075
Sewer	-	-	7,612	7,337
Airport	-	-	24,816	22,465
Solid Waste Management	-	-	73,679	70,493
Towing	-	-	8,520	6,858
Tidelands	-	-	105,671	94,033
Tideland Oil Revenue	-	-	264,355	188,250
Subsidence	-	-	4,061	4,054
Harbor	-	-	214,349	207,689
Total Expenses	<u>608,486</u>	<u>633,601</u>	<u>865,199</u>	<u>752,717</u>
Increase (Decrease) in Net Assets before Transfers	130,781	(28,787)	185,485	191,478
Capital Assets Transfers	-	-	-	19
Transfers	13,056	14,314	(13,056)	(14,314)
Change in Net Assets	<u>143,837</u>	<u>(14,473)</u>	<u>172,429</u>	<u>177,183</u>
Net Assets - October 1	<u>455,107</u>	<u>469,580</u>	<u>2,656,952</u>	<u>2,479,769</u>
Net Assets - September 30	<u>\$ 598,944</u>	<u>\$ 455,107</u>	<u>\$ 2,829,381</u>	<u>\$ 2,656,952</u>

Governmental Activities Year Ended September 30, 2006

Program Expenses and Revenues -Governmental Activities



Revenues By Source - Governmental Activities Year Ended September 30, 2006



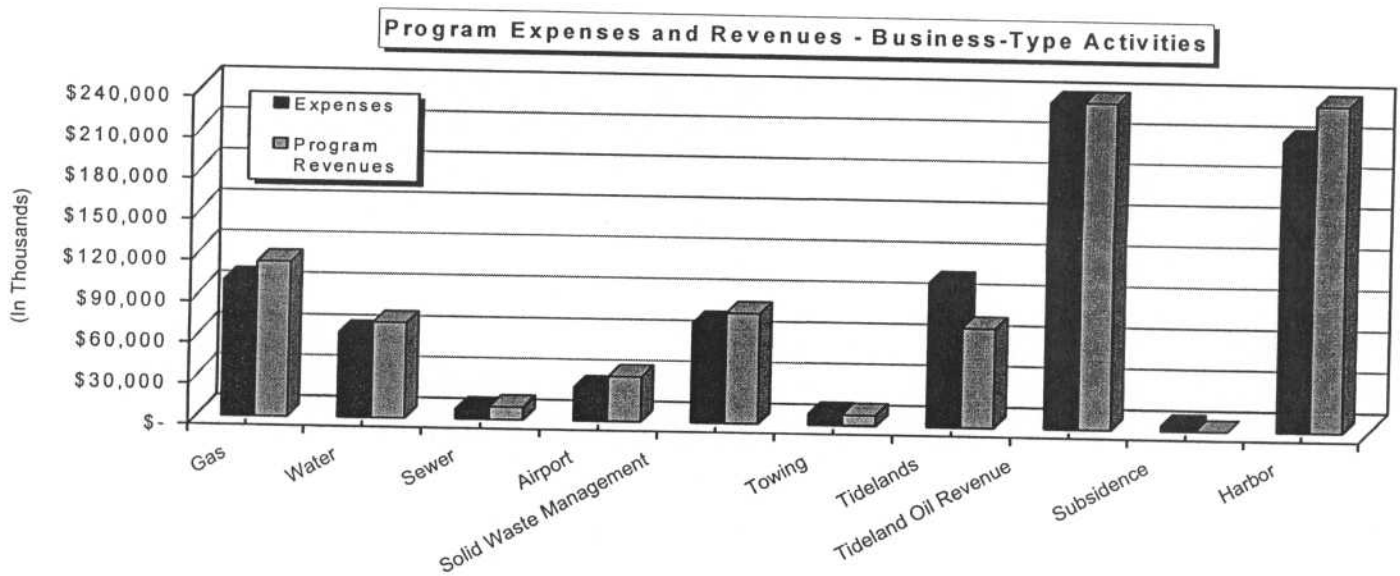
Governmental activities. The charts on the previous page illustrate program expenses and revenues by function, and revenues by source. Public Safety is the largest function at 41.9 percent of total governmental expense, followed by Community and Cultural at 30.6 percent, Public Works at 9.0 percent and Public Health at 7.2 percent. Property, sales and other taxes are general revenues used to support overall government functions; therefore, these are not shown as program revenues. Operating grants and contributions comprise 22.5 percent, charges for services 17.2 percent and property tax 19.1 percent of revenues.

Governmental activities increased the City's net assets by \$143.8 million; however, \$80 million of that increase, or 55.6 percent, is directly related to increases in grants and contributions not restricted to specific programs, in particular, land contributions comprised of easements and rights-of-way. The City's total revenues increased from fiscal year 2005 by \$134.5 million, or 22.2 percent including these land contributions and by \$58.0 million, or 10.3 percent excluding those items. Most notably, the City's expenses decreased for the first time since 2002, by \$25.1 million, or 4.0 percent. Key factors include the following:

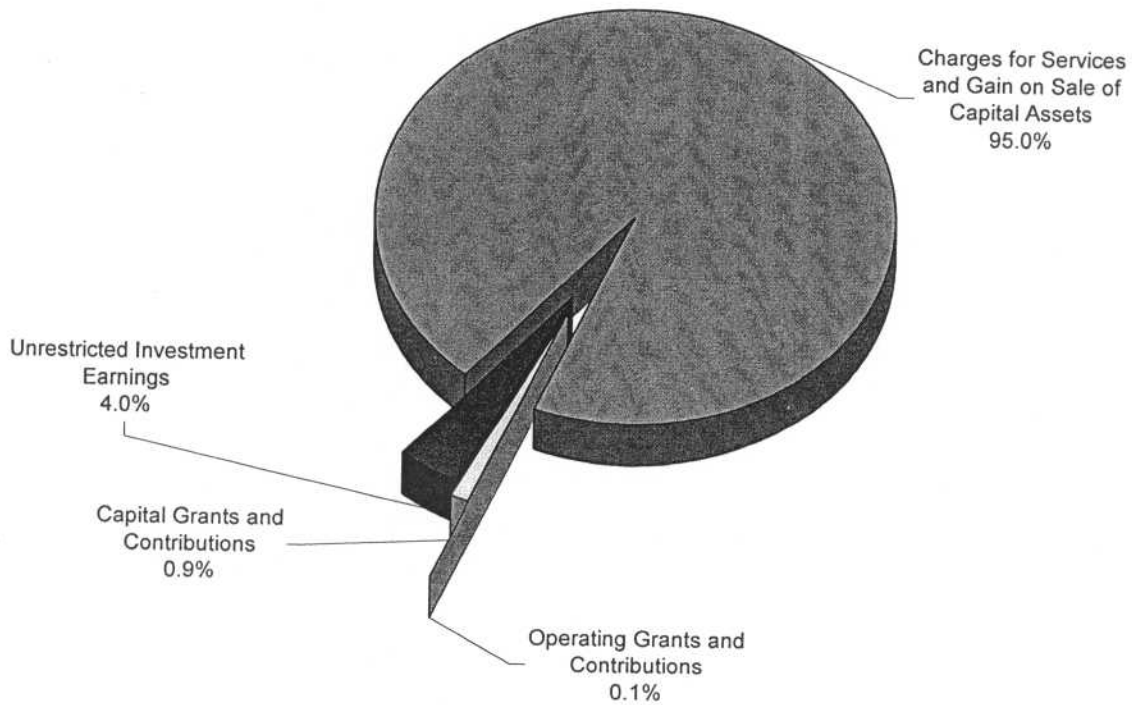
- Property tax, including Redevelopment Property Tax Increment, increased \$17.4 million or 14.0 percent primarily due to property assessed value increases from an extended albeit stabilizing real estate boom, along with long-term leases of newly constructed property in the Port that accrues to the Redevelopment Agency. The redevelopment project areas growth in assessed property values resulted in a 22.2 percent increase in property tax increment revenue, or \$12.4 million. In addition, General Fund property tax revenue increased slightly by \$1.1 million, or 1.8 percent. The remaining \$3.1 million increase in property tax revenue occurred within the Housing Development Fund.
- Sales tax revenue increased by \$3.3 million or 6.9 percent, due to a continued improved economy, higher wages and increased spending in the Greater Long Beach area.
- Utility users tax increased for the first time in five consecutive years, by \$1.4 million or 3.6 percent. October 1, 2005 represented the final date of a voter-mandated decrease in the tax rate that decreased the tax by one percent annually starting on October 1, 2000, reducing the rate from ten to five percent. It is expected this revenue source will stabilize now that the five-year rate cut has been fully implemented.
- Other tax revenue increased \$7.1 million or 13.8 percent and is primarily composed of pipeline fees, transient occupancy taxes, business license taxes and real estate property transfer tax revenue. Transient occupancy taxes increased due to increased hotel occupancy and room rates in fiscal year 2006, business license taxes increased partially due to the discontinuation of a 15 percent business license discount early-pay incentive program which ended early in fiscal year 2005, and increased real estate property transfer taxes attributed to an extended albeit stabilizing real estate boom.
- Charges for services reflect a net decrease of \$5.2 million or 3.9 percent reflecting:
 - General Government charges for services decreased by \$7.1 million or 26 percent largely due to utility customer service, billing, payments processing and collection activities being moved from the General fund to the Gas Fund to eliminate double budgeting and more closely align expenditures to the services they support.

- Public Safety charges for services decreased \$3.1 million, or 7.7 percent largely as a result of shifting all expenses and associated revenues for fire department services provided in the Harbor and Tidelands areas to the Tidelands Fund.
- Public Health charges for services decreased by \$1.0 million or 13.1 percent for the transfer of forensic nurse and detention facility health care to the Police Department.
- Public Works charges for services increased \$1.0 million or 5.7 percent primarily due to an increased surcharge at the Liquefied Natural Gas (LNG) fueling station, increased towing and parking fees, and other rate increases.
- Oil Operation revenue in the City's Uplands oil extraction area increased by \$4.2 million or 24.5 percent due to increased oil prices.
- Operating grants and contributions increased by \$24.4 million or 17.2 percent reflecting:
 - Public safety operating grants and contributions increased significantly by \$8.1 million or 62.9 percent primarily due to increased Federal funding for Homeland Security activities within the Police and Fire Departments.
 - Public health operating grants increased by \$2.7 million due to increased grant funding for various public health services.
 - Community and cultural operating grants and contributions increased by \$11.9 million or 14.4 percent primarily due to increased Federal Housing and Urban Development Section 8 vouchers for low-income housing assistance.
- Governmental activities expenses decreased in fiscal year 2006, for the first time since fiscal year 2002. The annual decrease in expenses of \$25.1 million, or 4.0 percent, results mostly from ongoing efforts to reduce the City's structural deficit and appropriately reallocate costs to internal service funds. Details include:
 - Public safety costs decreased \$25.2 million, which included \$17.9 million in decreased costs in the Police Department and \$9.9 million in the Fire Department directly related to reductions in worker's compensation costs.
 - General Government costs decreased \$11.8 million primarily due to the reallocation of \$8.0 million in utility billing costs to the enterprise utility directly and \$3.4 million in health care costs transferred to the Employee Benefits Internal Services Fund.
 - Community and cultural costs increased by \$9.3 million, reflecting a \$10.9 million increase in Community Development spending primarily for Redevelopment activities and a slight \$0.1 million increase in Planning and Building activities, offset by a \$1.8 million reduction in Library and Parks and Recreation services.
 - Public works expenses for governmental activities decreased \$3.8 million, due to a slight shift in public works activities in enterprise operations, such as the airport.
 - The increase of \$3.7 million in interest on long-term debt is related to the issuance of \$35.0 million in new bonds for redevelopment agency projects in the Downtown and North Long Beach Project areas.

Business-Type Activities **Year Ended September 30, 2006**



Revenue by Source - Business-type Activities **Year Ended September 30, 2006**



Business-type activities. The business-type activities charts on the previous page illustrate program expenses and revenues, and revenues by source. The Port of Long Beach is the largest business-type operation, followed by the tidelands and utilities. The utilities and the Port of Long Beach are mainly funded by fees for services provided, while the Tidelands is funded by fees along with approved transfers from the Port of Long Beach's Harbor Fund, Tideland Oil Revenue Fund, and one-half of the transient occupancy tax generated in the Downtown Redevelopment Agency project area.

Business-type activities increased the City's overall net assets by \$172.4 million, essentially accounting for 54.5 percent of the total growth in net assets. The fiscal year 2006 increase in business-type net assets was slightly less than the increase in fiscal year 2005 of \$177.2 million. Key elements of the increase in fiscal year 2006 are:

- The Port of Long Beach's net assets, which are included in the City's Harbor Fund, increased by \$154.0 million. This increase was due to net income from operations of \$192.3 million and capital grant revenue of \$2.3 million that was offset by net non-operating expenses of \$26.4 million and a transfer out of \$14.2 million to the Tidelands Fund. The net non-operating expenses were mainly the result of \$54.1 million of interest expense, offset by interest earnings of \$28.3 million and other minor income of \$0.8 million. The Port's operating income increased \$11.9 million, or 6.6 percent from last year, and is attributed to a 7.0 percent increase in containerized cargo volume.
- The Tidelands Fund's net assets increased by \$7.5 million; the net result of operating transfers of \$37.6 million offset by a combined operating and non-operating loss of \$30.1 million. Operating revenue increased by \$18.6 million mostly for increases in charges for services, while operating expenses increased by \$24.1 million primarily for increases related to personal services and maintenance costs at beaches and marinas.
- Tidelands Oil Revenue Fund net assets decreased by \$15.7 million due mostly to an operating transfer out to the Tidelands fund under a revenue sharing agreement for the optimized water flood program.
- Water Fund net assets increased \$7.0 million from net operating income of \$5.1 million and capital contributions of \$2.6 million offset by a minor non-operating expense of \$0.7 million. Operating revenue increased \$2.9 million from an increase in demand and a rate adjustment. Operating expenses increased by \$5.4 million due mostly to increased water purchases.
- Gas Fund net assets decreased \$4.1 million due to \$7.5 million from operating income, \$5.4 million in net non-operating income, less \$17.0 million in operating transfers to the General Fund. Operating income decreased by \$4.4 million from the prior year; the net result of an annual increase in operating expenses of \$12.9 million offset by increased annual revenue of \$8.5 million. Operating expenses increased by 14.8 percent due to increases in gas prices, a new contract with Coral Energy and the decision to direct charge the Gas Fund for utility related billing costs.
- The \$11.1 million increase in non-major business-type activities net assets include the Airport Fund net assets increase of \$8.6 million primarily due to grants for runway, infrastructure improvements and security projects. The other enterprise funds reflected minimal changes in operations.

Government Funds Financial Analysis

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds

The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At September 30, 2006, the City's governmental funds reported a combined ending fund balance of \$461.2 million, a net increase of \$12.4 million over the prior year. This change is primarily the result of increases in the fund balances of the housing development, community development grants, redevelopment capital projects, and other governmental funds. Governmental funds assets decreased slightly by \$9.8 million or 1.2 percent, due to decreases in non-pooled cash and cash equivalents and in amounts due from other funds.

Of the total fund balance, the net unreserved fund balance is an \$8.9 million deficit. Advances from the General Fund to the Redevelopment Fund comprise most of the deficit, and will be repaid from future property tax increment revenue. The unreserved General Fund ending fund balance at September 30, 2006 totaled a net \$35.5 million representing Emergency Reserves of \$36.9 million and a reserve for subsequent years' appropriations of \$6.7 million, offset by long-term advances of \$8.1 million from the Subsidence Fund. All of the other governmental funds reported an aggregate unreserved fund balance of \$55.9 million, with the exception of the Redevelopment Capital Projects Fund reporting a net unreserved fund balance deficit of \$100.2 million for redevelopment capital projects.

The *reserved* fund balance classification indicates funds committed for: (a) long-term advances to other funds (\$132.0 million) that are not available to spend; (b) reserves for land held for resale (\$118.8 million) that are not available to spend; (c) asset seizure funds restricted by law (\$2.5 million); (d) commitments for contracts and purchase orders (\$16.6 million); (e) City Charter requirements to maintain a \$1.5 million cash balance reserve; (f) future capital projects and special programs (\$140.6 million); (g) required bond reserves to pay debt service (\$54.5 million); and (h) other restricted purposes including a reserve for estimated oil field abandonment costs and housing development (\$3.5 million).

Since the implementation of GASB 34 in 2002, long-term advances due from other funds have been recorded as fund balance reserved for non-current receivables. The long-term advances due from other funds (e.g. loan to the Redevelopment Agency) have no specified repayment date; therefore, the General Fund reserved fund balance in the amount of \$100.9 million is not available. As a measure of the General Fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. The total unreserved fund balance of \$35.5 million, including emergency reserves of \$36.9 million, represents 9.9 percent of total General Fund expenditures of \$359.6 million.

The General Fund's fund balance decreased by \$2.8 million during fiscal year 2006. This compares to an \$11.3 million increase in fiscal year 2005. Factors affecting the fiscal year 2006 decrease include the following:

- Other financing sources decreased by \$2.6 million primarily due to a reduction in transfers in from other funds.
- Charges for services revenue decreased \$17.6 million due to the decision to direct charge expenses and revenues associated with certain enterprise and internal services operations to those funds.
- Revenue from other agencies decreased by a net \$3.0 million due to the transfer of Proposition 172 revenue to the General Grants Fund and a decrease in Property Tax in-lieu-of Vehicle License Fee revenue.

It is also important to note that in fiscal year 2006 General Fund expenditures decreased by \$13.9 million or 3.7 percent reflecting the fourth year of the City's Financial Strategic Plan to reduce the City's structural deficit.

Enterprise Funds

The Enterprise Funds' total net assets at September 30, 2006 totaled \$2.8 billion. Total unrestricted net assets amounted to \$748.2 million, before the Internal Service Fund activities allocation. The total growth in net assets was \$152.8 million after the Internal Service Fund activities allocation to Enterprise Funds. Other factors affecting the finances of these funds are addressed in the discussion of the City's business-type activities.

The Tidelands, Tideland Oil Revenue and Harbor Funds reported unrestricted net assets of \$21.6 million, \$42.2 million and \$584.8 million, respectively. The Gas, Water and Solid Waste Management funds reported unrestricted net assets of \$9.7 million, \$10.9 million and \$57.5 million, respectively. The Solid Waste Management Fund reported a deficit investment in Capital Assets net of Related Debt due to the 1995 refunding bond issue that extended the original repayment terms for the debt. The 1995 Series was refunded again in 2004 without extending debt service payments from that of the 1995 bond issue. Other business-type funds reported unrestricted net assets of \$21.5 million.

Internal Service Funds

The Internal Service funds, which are used to finance and account for goods and services provided internally among City departments, had a deficit in unrestricted net assets of \$123.7 million. This deficit is in the Insurance and Employee Benefit Internal Service funds, which have always been accounted for on a pay-as-you-go basis and therefore are not fully funded for long-term liabilities. City management believes the cash position of each fund is sufficient to cover the current costs related to health insurance, worker's compensation, and general liability claims and operating costs. The City's Management intends to adjust billings to City departments as needed to ensure that adequate cash positions are maintained. This reflects a \$15.9 million decrease in the unrestricted fund balance deficit from 2005 and is primarily due to a decrease in non-current liabilities for bonds payable and accrued self-insured claims.

Fiduciary Funds

The City maintains fiduciary funds for the assets of private purpose trust and agency funds including the Miller Trust Fund, the Mayor's Fund for the Homeless and various agency funds held by the City as an agent for individuals, private organizations and other governmental units. The private purpose trust funds are held in trust for the benefit of the Main Library Miller room staffing and books, and for homeless services expenditures, with net assets of \$867,000 and \$76,000, respectively. In fiscal year 2006, agency funds recorded the receipt, temporary investment and remittance of \$27.4 million in resources for the Belmont Shore Parking, Taxes Oil Rights, Special Assessment District, Intermodal Container Transfer Facility, Earthquake Assessment District and other agency funds.

Budgetary Highlights

The City adopts an annual budget for the governmental funds that includes the General Fund, Capital Projects and Special Revenue Funds. The City Council adopts budget adjustments during the year that are generally contingent upon new or additional revenue.

General Fund

General Fund final appropriations for revenues and expenditures reflected a net reduction from the original adopted budget of \$2.0 million at September 30, 2006. This was primarily the result of a \$2.3 million decrease in expenditures primarily in general government, public health, community and cultural and public works expenditures, offset by a \$0.3 million increase in General Fund revenue.

The General Fund reflects a net positive ending fund balance variance of \$1.4 million on a budgetary basis, which consists of slight favorable variances in revenue, expenditures and other financing sources of \$0.3 million, \$0.8 million and \$0.3 million, respectively.

General fund actual revenues were over budget slightly by \$0.3 million on a budgetary basis. Property tax was slightly less than budgeted by \$1.7 million. Sales tax actual revenue was \$1.4 million more than the final projection of \$47.7 million, primarily due to an improving economy and an increase in taxable sales. Actual Utility Users Tax revenue came in virtually as projected at \$40.7 million. License and permit revenue exceeded budget by \$2.8 million due to scheduled Citywide fee increases aimed at fully recouping the actual cost of providing City services (including business licenses, building permits and plan check fees to name a few). Use of money and property actual revenue was \$4.3 million lower than expected due to an unanticipated delay in the sale of certain city-owned properties. Revenue from other agencies is \$7.8 million more than projected due to the decision to record sales tax in lieu in this category, increases in Motor Vehicle License Fees and increased reimbursements from miscellaneous grants. Other tax revenue of \$44.6 million was \$1.7 million below the anticipated revenue of \$46.3 million.

Capital Asset and Debt Administration

Capital assets

The City's investment in capital assets for its governmental and business-type activities for the current fiscal year amounts to \$3.8 billion, net of accumulated depreciation. This is an

increase of \$81.7 million over fiscal year 2005 primarily due to the recording of the governmental funds rights-of-way totaling \$78.5 million. This investment in capital assets includes land, rights-of-way and easements, buildings, improvements, machinery and equipment, parks, roads, curbs, gutters, sidewalks, alleys and bridges.

Other major changes in capital projects in progress and capital assets include:

- The Harbor Fund capital assets decreased \$16.8 million due to the transfer of accumulated costs from the construction in progress account to expense and to fixed assets, net of depreciation.
- The Airport Fund increase of \$7.0 million is due to completion of taxiway improvements totaling \$3 million and SACS 2004 upgrades of \$4 million.
- The Water Fund capital assets increased \$6.3 million due to the completion of a conjunctive water well project.
- Gas Fund capital assets increased by \$6.5 million due to the repair or rehabilitation of gas main pipelines.
- Governmental activities Construction in Progress increased by \$20.1 million for the rehabilitation of the Shoreline Village and Downtown Marinas for a total of \$16.0 million and the construction of the Mark Twain Library for \$4.0 million.
- The governmental activities automobile fleet increased \$2.1 million mostly due to purchases of fire trucks and other equipment for the Fire Department.
- Total infrastructure assets increased slightly by \$0.5 million.

Additional information on the City's capital assets can be found in Note 7 to the basic financial statements.

Capital Assets, Net of Depreciation
September 30, 2006 and 2005
(In Thousands)

	Governmental Activities		Business-type Activities		Totals	
	2006	2005	2006	2005	2006	2005
Land	\$ 115,922	\$ 116,026	\$ 910,632	\$ 898,540	\$ 1,026,554	\$ 1,014,566
Rights-of-way	81,311	2,806	209,671	207,823	290,982	210,629
Construction In Progress	96,824	76,710	218,724	188,092	315,548	264,802
Buildings	168,428	171,072	1,125,898	1,200,100	1,294,326	1,371,172
Improvements other than Buildings	35,908	34,817	159,728	146,449	195,636	181,266
Infrastructure	162,768	163,636	425,551	424,193	588,319	587,829
Machinery and Equipment	17,805	19,115	5,975	5,434	23,780	24,549
Automotive	38,342	36,194	5,525	4,925	43,867	41,119
Other Assets	4,259	5,679	-	-	4,259	5,679
Total Net Capital Assets (net)	<u>\$ 721,567</u>	<u>\$ 626,055</u>	<u>\$ 3,061,704</u>	<u>\$ 3,075,556</u>	<u>\$ 3,783,271</u>	<u>\$ 3,701,611</u>

Long-Term Indebtedness

At the end of fiscal year 2006, the City had total net long-term obligations outstanding of \$2.7 billion. Of this amount, \$1.8 billion relates to revenue bonds, certificates of participation, notes payable, capital leases, accrued oil field abandonment costs and other obligations of the City's business enterprises. The remaining balance of \$821.8 million relates to revenue bonds, tax allocation bonds, notes payable, capital leases, self-insurance, employee benefit obligations and other obligations of the governmental funds.

The City's net debt outstanding decreased by \$158.7 million by September 30, 2006 (Note 8). A total of \$85.8 million in new debt was issued in fiscal year 2006 including \$35.0 million in tax allocation bonds to support redevelopment activities in the Downtown and North Long Beach project areas, and \$50.8 million for the refinancing of the Rainbow Harbor Bonds. The City also entered into \$11.0 million in capital leases for mobile data terminals for the police department, equipment for the Fire Department including two ladder trucks, ten pumper trucks and a life saving boat, computer purchases, and the installation of a surface membrane to the convention center roof.

Additional information on the City of Long Beach's long-term debt can be found in Notes 8 through 11 of the basic financial statements.

Economic Factors and Next Year's Budget and Rates

The unemployment rate for the City of Long Beach is currently 4.6 percent, reflecting a decrease from a rate of 6.1 percent a year ago. This compares favorably to the State of California's unemployment rate of 4.9 percent, while matching the national average rate of 4.6 percent.

Fiscal year 2007 represents the fourth and final year of the Financial Strategic Plan (Plan) to eliminate the City's General Fund structural deficit. The City Council's Financial Policies addressing such key issues as the use of one-time resources, debt guidelines, structurally balanced budgets, financial reporting and reserve designations, create the foundation for the annual budget development process. Highlights of the fiscal year 2007 budget follow.

The Fiscal year 2007 adopted General Fund revenue budget of \$376.4 million reflects a projected net increase of \$18.1 million or 5.0 percent from fiscal year 2006. The four largest structural revenue sources for fiscal year 2007 - property tax, sales and use tax, motor vehicle in lieu (MVLFF) and utility users tax - comprise 53 percent of total General Fund revenues. Below is a closer look at these four key General Fund resources:

- Property Tax revenue of \$65.6 million reflects an increase of \$9.4 million due to a continued albeit stabilizing growth in assessed valuations;
- Sales and Use Tax revenue of \$55.0 million reflects a \$3.6 million increase due to slower growth in discretionary spending offset by anticipated increases in the price of consumer products due to higher transportation and construction costs;
- Vehicle License Fee revenue of \$37.2 million reflects a total increase of \$7.3 million largely due to the last \$5 million contribution to the State in fiscal year 2006 for the Governor's support of Proposition 1A; and

- Utility Users Tax revenue of \$43.2 million reflects a slight increase of \$1.9 million due to mostly minor electric utility rate increases.

In addition, the City continues to evaluate its fees for services to ensure fees collected fully support the costs of providing City services. To that end, on July 11, 2006 the City Council adopted and amended its financial policy on user fees and charges to demand full cost recovery except where a greater public benefit is demonstrated to the satisfaction of the Council. As a result, the City expects to recoup an additional \$5.5 million citywide in fees for service, of which approximately \$1.4 million relates to the General Fund.

The fiscal year 2007 adopted General Fund operating budget of \$364.1 million increased by a net \$6.2 million from the final fiscal year 2006 budget, excluding transfers. This difference is primarily the result of negotiated employee salary increases, escalating insurance costs, and higher fuel and energy prices.

To address the final \$10 million structural deficit remaining in fiscal year 2007, the City utilized a multi-pronged approach budget savings through program optimizations; appropriately allocating General Fund costs to other funds where the services are actually provided; increasing cost recovery through new and adjusted fees; and savings generated by improvements in daily business practices. As promised to the City Council, no further library reductions are included in the fiscal year 2007 Budget. Specifically, the structural balance was achieved through the following:

- Budget savings of \$4.9 million through the optimization of certain programs including the City's reprographics services, helicopter maintenance and employee health benefits;
- Appropriately allocating General Fund costs totaling \$3.7 million to other funds where the services are actually provided, as follows:
 - Planning and Building functions were transferred to a new stand alone Development Services Special Revenue Fund, thereby eliminating the traditional General Fund subsidy for planning and building services;
 - Parks, Recreation and Marine administrative and management costs associated with Tidelands activities were transferred to the Tidelands Fund;
 - Community Development administrative costs were allocated across its operations and funds as appropriate; and
 - The full cost of Police and Fire services were directly allocated to the City's Enterprise Funds based on actual services provided and costs incurred.
- Increased cost recovery of \$1.4 million through new and adjusted fees.

The General Fund's expenditure budget also included enhancements in critical areas, many which are offset by additional revenue. Below are the more significant enhancements:

- A \$653,000 increase for the creation of a new Prisoner Transport Unit and a new Professional Standards Unit within the City's Police Department.
- A \$552,000 increase for materials, supplies and staffing at the new state-of-the-art MacArthur Park Library.
- A \$500,000 increase for a new tree trimming management and inventory system.
- Increased funding to enhance police patrols at the marinas, airport and parks for \$348,000.
- A \$300,000 increase for the maintenance and equipment needs of 10 new black and white police patrol cars.
- A \$239,400 increase for the enforcement of a new dog-breeding ordinance.
- A \$200,000 increase for surveillance cameras and crime monitoring on Pine Ave.
- A \$158,000 increase for a new Performance Management and Budgeting Division.
- A \$150,000 increase to expand community development programs citywide.
- Additional funding of \$59,000 for proposed neighborhood beautification programs.
- An additional \$24,000 to expand Fire Department Drill School training by two weeks.

Fiscal year 2007 represents the fourth year of the Financial Strategic Plan (Plan) to address the City's structural deficit, while maintaining its core municipal services. The Plan was designed to be fluid and assess targeted accomplishments, add new ideas reflective of shifting economic conditions, confirm validity of proposed reductions and make appropriate adjustments to ensure input from the City Council and the community. In the development process of the fiscal year 2007 budget, the City reached out to the community for ideas and input through a series of community meetings, including the July 9, 2006 budget summit, and dozens of neighborhood association, board, committee and commission meetings.

In addition, fiscal year 2007 marked the second consecutive year the City adopted a performance-based budget. The City's full-scale implementation of its Focus on Results (FOR) performance based management system has aligned the City's financial resources and operations with the City Council and community's priorities, improving the efficiency of City operations and increasing accountability at all levels of the organization.

Requests for Information

This financial report is designed to provide a general overview of the City of Long Beach's finances. Questions concerning any of the information should be addressed to the Department of Financial Management, 333 West Ocean Boulevard, 6th Floor, Long Beach, California 90802.

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City of Long Beach
Statement of Net Assets
September 30, 2006
(In Thousands)

	Primary Government			Component Unit
	Governmental	Business-Type		Long Beach
	Activities	Activities	Total	Public Transportation Company
ASSETS				
Current Assets:				
Pooled Cash and Cash Equivalents	\$ 285,692	\$ 702,062	\$ 987,754	\$ -
Non-Pooled Cash and Cash Equivalents	149,883	34	149,917	14,478
Non-Pooled Investments	-	603	603	-
Interest Receivable	2,632	576	3,208	-
Property Tax Receivable, Net	1,562	-	1,562	-
Accounts and Loans Receivables, Net	21,567	108,544	130,111	1,467
Due from Other Governments	47,099	6,709	53,808	-
Internal Balances	(4,453)	4,453	-	-
Inventory	1,737	4,102	5,839	941
Other Assets	23,752	-	23,752	180
Land Held for Resale	118,832	-	118,832	-
Restricted Assets:				
Pooled Cash and Cash Equivalents	7,326	431,547	438,873	-
Non-Pooled Cash and Cash Equivalents	12,357	43,006	55,363	19,036
Non-Pooled Investments	-	50,764	50,764	-
Accounts and Loans Receivables, Net	-	291	291	5,034
Interest Receivable	-	282	282	-
Deposits	6,858	-	6,858	-
Noncurrent Assets:				
Non-Pooled Investments	10,000	-	10,000	-
Other Noncurrent Receivables	66,294	14,049	80,343	-
Land and Other Capital Assets not being Depreciated	294,057	1,339,027	1,633,084	6,967
Capital Assets, net of Accumulated Depreciation	427,510	1,722,677	2,150,187	76,621
Other Assets	71,733	415,091	486,824	-
Total Assets	<u>1,544,438</u>	<u>4,843,817</u>	<u>6,388,255</u>	<u>124,724</u>
LIABILITIES				
Current Liabilities:				
Accounts Payable	31,415	93,734	125,149	1,652
Accrued Wages and Benefits Payable	43,329	8,229	51,558	489
Accrued Interest Payable	4,691	498	5,189	1,864
Deferred Revenue, Credits and Other Payables	34,025	31,341	65,366	12,067
Employee Benefits and Accrued Self-Insurance Claims	25,210	-	25,210	3,291
Bonds, Loans, Capital Leases and Other Long-Term Obligations	24,470	18,086	42,556	-
Liabilities Payable From Restricted Assets:				
Accounts Payable	-	65	65	-
Accrued Interest Payable	6,380	23,803	30,183	-
Deferred Revenue, Credits and Other Payables	-	-	-	17,360
Customers Deposits	-	2,554	2,554	-
Bonds and Other Long-Term Obligations	-	47,133	47,133	-
Noncurrent Liabilities:				
Deferred Revenue, Credits and Other Payables	3,883	11,872	15,755	-
Employee Benefits and Accrued Long-Term Obligations	185,132	343,100	528,232	808
Bonds, Loans, Capital Leases and Other Long-Term Obligations	586,959	1,434,021	2,020,980	-
Total Liabilities	<u>945,494</u>	<u>2,014,436</u>	<u>2,959,930</u>	<u>37,531</u>
NET ASSETS				
Invested in Capital Assets,				
Net of Related Debt	209,230	1,572,117	1,781,347	83,588
Restricted for:				
Asset Seizure Money	2,463	-	2,463	-
Debt Service	53,876	143,351	197,227	-
Capital Projects	170,059	59,974	230,033	113
Public Health	2,430	-	2,430	-
Community and Cultural	248,045	-	248,045	-
Health Care Insurance	14,125	-	14,125	-
Harbor Project Contingencies	-	162,603	162,603	-
Other Purposes	5,096	157,841	162,937	-
Unrestricted	(106,380)	733,495	627,115	3,492
Total Net Assets	<u>\$ 598,944</u>	<u>\$ 2,829,381</u>	<u>\$ 3,428,325</u>	<u>\$ 87,193</u>

The notes to the basic financial statements are an integral part of this statement.

City of Long Beach
Statement of Activities
For the Fiscal Year Ended September 30, 2006
(In Thousands)

<u>Functions/Programs</u>	<u>Program Revenues</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary Government:				
Governmental Activities:				
Legislative and Legal	\$ 12,003	\$ 1,256	\$ 38	\$ -
General Government	13,988	20,174	27	-
Public Safety	255,188	36,694	21,016	-
Public Health	44,024	6,565	23,547	-
Community and Cultural	186,528	23,291	94,190	656
Public Works	55,009	17,840	27,608	13,070
Oil Operations	7,192	21,481	-	-
Interest on Long-Term Debt	34,554	-	-	-
Total Governmental Activities	<u>608,486</u>	<u>127,301</u>	<u>166,426</u>	<u>13,726</u>
Business-Type Activities:				
Gas	99,656	113,053	-	-
Water	62,480	67,198	-	2,634
Sewer	7,612	9,245	-	-
Airport	24,816	29,086	58	4,015
Solid Waste Management	73,679	80,015	1,126	-
Towing	8,520	7,846	-	-
Tidelands	105,671	73,013	-	-
Tideland Oil Revenue	264,355	266,992	-	-
Subsidence	4,061	-	-	-
Harbor	214,349	354,125	-	2,298
Total Business-Type Activities	<u>865,199</u>	<u>1,000,573</u>	<u>1,184</u>	<u>8,947</u>
Total Primary Government	<u>\$ 1,473,685</u>	<u>\$ 1,127,874</u>	<u>\$ 167,610</u>	<u>\$ 22,673</u>
Component Unit:				
Long Beach Public Transportation Company	<u>\$ 74,836</u>	<u>\$ 15,333</u>	<u>\$ 42,079</u>	<u>\$ 11,971</u>

General Revenues

Taxes:

Property

Sales

Utility Users

Other

Grants and Contributions Not Restricted to Specific Programs

Unrestricted Investment Earnings

Gain (Loss) on Sale of Capital Assets

Transfers

Total General Revenues and Transfers

Change in Net Assets

Net Assets - October 1

Net Assets - September 30

The notes to the basic financial statements are an integral part of this statement.

Net (Expense) Revenue and
Changes in Net Assets

Primary Government			Component Unit
Governmental Activities	Business-Type Activities	Total	Long Beach Public Transpor- tation Company
\$ (10,709)	\$ -	\$ (10,709)	\$ -
6,213	-	6,213	-
(197,478)	-	(197,478)	-
(13,912)	-	(13,912)	-
(68,391)	-	(68,391)	-
3,509	-	3,509	-
14,289	-	14,289	-
(34,554)	-	(34,554)	-
(301,033)	-	(301,033)	-
-	13,397	13,397	-
-	7,352	7,352	-
-	1,633	1,633	-
-	8,343	8,343	-
-	7,462	7,462	-
-	(674)	(674)	-
-	(32,658)	(32,658)	-
-	2,637	2,637	-
-	(4,061)	(4,061)	-
-	142,074	142,074	-
-	145,505	145,505	-
(301,033)	145,505	(155,528)	-
-	-	-	(5,453)
141,335	-	141,335	-
51,557	-	51,557	-
40,637	-	40,637	-
58,291	-	58,291	-
115,668	-	115,668	-
23,520	42,021	65,541	1,107
806	(2,041)	(1,235)	-
13,056	(13,056)	-	-
444,870	26,924	471,794	1,107
143,837	172,429	316,266	(4,346)
455,107	2,656,952	3,112,059	91,539
\$ 598,944	\$ 2,829,381	\$ 3,428,325	\$ 87,193

City of Long Beach
Governmental Funds
Balance Sheet
September 30, 2006
With Summarized Financial Information for 2005
(In Thousands)

	General	Housing Development	Community Development Grants
ASSETS			
Pooled Cash and Cash Equivalents	\$ 40,164	\$ 27,185	\$ 4,474
Non-Pooled Cash and Cash Equivalents	5,629	1,040	3
Non-Pooled Investments	-	-	-
Receivables:			
Interest Receivable	21	10	-
Property Taxes	3,452	-	-
Accounts Receivable	24,661	1	-
Notes and Loans Receivable	2,266	-	-
Due from Other Governments	16,449	-	2,882
Due from Other Funds	12,155	14	-
Allowance for Receivables	(20,437)	-	-
Other Assets	13	1	326
Advances to Other Funds	100,924	20,800	6,719
Land Held for Resale	-	995	1,332
Other Noncurrent Receivables	-	28,598	30,129
Total Assets	<u>\$ 185,297</u>	<u>\$ 78,644</u>	<u>\$ 45,865</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts Payable	\$ 7,329	\$ 722	\$ 1,485
Accrued Wages Payable	8,099	38	205
Accrued Interest Payable	-	-	-
Tax and Revenue Anticipation Notes Payable	-	-	-
Due to Other Funds	3,821	19	1,994
Deferred Revenues	7,609	28,599	30,736
Deposits and Collections Held in Trust	2,888	32	31
Advances from Other Funds	8,114	3,819	-
Total Liabilities	<u>37,860</u>	<u>33,229</u>	<u>34,451</u>
Fund Balances (Deficit):			
Reserved for:			
Other Noncurrent Receivables	100,924	20,800	6,719
Asset Seizure Money	2,463	-	-
Encumbrances	1,274	-	63
Future Advances to Other Funds	1,486	-	-
Future Capital Projects and Special Programs	-	-	-
Housing Development	-	104	-
Land Held for Resale	-	995	1,332
Estimated Oil Field Abandonment Costs	-	-	-
Debt Service	5,812	-	-
Unreserved, Designated for:			
Subsequent Years' Appropriations	6,696	27,336	3,300
Emergency	34,396	-	-
Unreserved, Undesignated, Reported in:			
General Fund	(5,614)	-	-
Special Revenue Funds	-	(3,820)	-
Capital Projects Funds	-	-	-
Total Fund Balance	<u>147,437</u>	<u>45,415</u>	<u>11,414</u>
Total Liabilities and Fund Balances	<u>\$ 185,297</u>	<u>\$ 78,644</u>	<u>\$ 45,865</u>

The notes to the basic financial statements are an integral part of this statement.

General Capital Projects	Redevelopment Capital Projects	Other Governmental Funds	Totals	
			September 30, 2006	September 30, 2005
\$ 19,526	\$ 39,680	\$ 65,040	\$ 196,069	\$ 170,632
1,095	141,959	157	149,883	234,210
-	10,000	-	10,000	10,000
-	2,601	-	2,632	3,182
-	-	-	3,452	7,353
47	360	3,794	28,863	24,455
-	-	-	2,266	2,370
12,385	16	14,665	46,397	44,637
86	303	-	12,558	21,736
-	-	(782)	(21,219)	(17,661)
-	23,715	10	24,065	14,018
1,615	14,591	-	144,649	140,452
-	116,505	-	118,832	75,284
-	4,065	1,365	64,157	61,752
<u>\$ 34,754</u>	<u>\$ 353,795</u>	<u>\$ 84,249</u>	<u>\$ 782,604</u>	<u>\$ 792,420</u>
\$ 5,351	\$ 2,450	\$ 10,680	\$ 28,017	\$ 27,102
101	62	847	9,352	8,362
-	-	-	-	900
-	-	-	-	30,000
50	3,370	7,332	16,586	25,227
478	18,788	9,977	96,187	84,095
1	605	2,112	5,669	6,822
-	148,773	4,900	165,606	161,103
<u>5,981</u>	<u>174,048</u>	<u>35,848</u>	<u>321,417</u>	<u>343,611</u>
1,615	1,912	-	131,970	132,254
-	-	-	2,463	2,763
9,595	732	4,915	16,579	12,760
-	-	-	1,486	1,486
2,501	112,313	25,764	140,578	203,510
-	-	-	104	480
-	116,505	-	118,832	75,284
-	-	3,495	3,495	3,136
-	48,534	200	54,546	57,712
15,062	48,524	16,927	117,845	81,871
-	-	-	34,396	34,156
-	-	-	(5,614)	(1,554)
-	-	(2,900)	(6,720)	(6,719)
-	(148,773)	-	(148,773)	(148,330)
<u>28,773</u>	<u>179,747</u>	<u>48,401</u>	<u>461,187</u>	<u>448,809</u>
<u>\$ 34,754</u>	<u>\$ 353,795</u>	<u>\$ 84,249</u>	<u>\$ 782,604</u>	<u>\$ 792,420</u>

City Of Long Beach
Reconciliation of Total Governmental Fund Balances to Net Assets
of Governmental Activities in the Statement of Net Assets
September 30, 2006
(in Thousands)

Amounts reported for governmental activities in the statement of net assets are different because:

Total governmental fund balances	\$ 461,187
Capital assets used in the governmental activities, that are not included in the internal service funds, are not financial resources and, therefore, are not reported in the funds.	589,055
Certain property taxes receivable are not available to pay current-period expenditures and, therefore, are deferred in the funds.	1,563
Because the focus of governmental funds is short-term financing, some assets will not be available to pay for current period expenditures. Those assets are offset by deferred revenue in the funds.	62,871
Governmental long-term liabilities, excluding those liabilities in the internal service funds, are not due and payable in the current period, therefore, are not reported in the funds. (Note 3)	(497,885)
Internal service funds are used by management to charge the cost of operations and financing related to the Civic Center complex; operations, maintenance, financing, and timely replacement of information technology assets and vehicles; and to account for the City's risk management, self-insurance and employee benefits programs to individual user funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	<u>(17,847)</u>
Net assets of governmental activities	<u>\$ 598,944</u>

The notes to the basic financial statements are an integral part of this statement.

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City of Long Beach
Governmental Funds
Statement of Revenues, Expenditures and
Changes in Fund Balances
For the Fiscal Year Ended September 30, 2006
With Summarized Financial Information for 2005
(In Thousands)

	<u>General</u>	<u>Housing Development</u>	<u>Community Development Grants</u>
Revenues:			
Taxes:			
Property	\$ 61,823	\$ 15,852	\$ -
Sales	49,099	-	-
Utility Users	40,637	-	-
Other Taxes	44,573	-	-
Licenses and Permits	23,143	165	2
Fines and Forfeitures	16,387	-	-
Use of Money and Property	17,707	1,203	661
From Other Agencies	38,652	250	22,853
Charges for Services	26,980	-	-
Other Land Proceeds	-	-	-
Other	6,310	1,235	3,254
Total Revenues	<u>325,311</u>	<u>18,705</u>	<u>26,770</u>
Expenditures:			
Current:			
Legislative and Legal	12,464	-	-
General Government	14,515	72	267
Public Safety	247,102	-	-
Public Health	4,332	-	-
Community and Cultural	43,304	9,619	22,923
Public Works	26,406	-	-
Oil Operations	-	-	-
Total Current Expenditures	<u>348,123</u>	<u>9,691</u>	<u>23,190</u>
Capital Improvements	-	-	-
Loss on Disposition of Land Held for Resale	-	-	-
Debt Service:			
Principal	6,136	907	-
Interest	5,374	407	-
Debt Administration Fees	-	-	-
Total Expenditures	<u>359,633</u>	<u>11,005</u>	<u>23,190</u>
Excess of Revenues Over (Under) Expenditures	<u>(34,322)</u>	<u>7,700</u>	<u>3,580</u>
Other Financing Sources (Uses):			
Other Deferred Payments	-	-	-
Proceeds from Other Long-Term Obligations	2,902	-	-
Payment to Refunded Bond Escrow Agent	-	-	-
Reconveyance of Land	-	-	-
Advances-Capitalized Interest	1,780	92	-
Transfers In	34,590	1,349	197
Transfers Out	<u>(7,742)</u>	<u>(5,753)</u>	<u>(2,875)</u>
Total Other Financing Sources (Uses)	<u>31,530</u>	<u>(4,312)</u>	<u>(2,678)</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>(2,792)</u>	<u>3,388</u>	<u>902</u>
Fund Balances - October 1	<u>150,229</u>	<u>42,027</u>	<u>10,512</u>
Fund Balances - September 30	<u>\$ 147,437</u>	<u>\$ 45,415</u>	<u>\$ 11,414</u>

The notes to the basic financial statements are an integral part of this statement.

General Capital Projects	Redevelopment Capital Projects	Other Governmental Funds	Totals	
			September 30, 2006	September 30, 2005
\$ -	\$ 63,406	\$ -	\$ 141,081	\$ 124,463
-	-	2,458	51,557	48,216
-	-	-	40,637	39,216
-	3,634	10,085	58,292	51,237
1,409	179	5,110	30,008	26,269
-	-	-	16,387	14,744
717	13,901	23,775	57,964	48,849
13,017	62	145,112	219,946	192,722
-	-	2,091	29,071	46,633
-	716	-	716	-
51	2,145	897	13,892	15,987
<u>15,194</u>	<u>84,043</u>	<u>189,528</u>	<u>659,551</u>	<u>608,336</u>
-	-	-	12,464	10,037
-	269	-	15,123	25,209
-	-	18,955	266,057	257,869
-	-	40,402	44,734	41,651
-	49,930	74,001	199,777	179,859
-	-	16,241	42,647	42,885
-	-	7,089	7,089	6,164
-	50,199	156,688	587,891	563,674
27,336	-	11,726	39,062	30,106
-	-	-	-	4,090
-	7,430	349	14,822	11,942
-	19,320	188	25,289	20,806
-	144	3	147	320
<u>27,336</u>	<u>77,093</u>	<u>168,954</u>	<u>667,211</u>	<u>630,938</u>
<u>(12,142)</u>	<u>6,950</u>	<u>20,574</u>	<u>(7,660)</u>	<u>(22,602)</u>
-	220	-	220	221
-	37,500	-	40,402	188,344
-	(36,135)	-	(36,135)	(3,526)
-	-	-	-	491
-	(1,872)	-	-	-
11,571	5,741	2,452	55,900	52,782
(325)	(7,162)	(16,492)	(40,349)	(33,960)
<u>11,246</u>	<u>(1,708)</u>	<u>(14,040)</u>	<u>20,038</u>	<u>204,352</u>
(896)	5,242	6,534	12,378	181,750
<u>29,669</u>	<u>174,505</u>	<u>41,867</u>	<u>448,809</u>	<u>267,059</u>
<u>\$ 28,773</u>	<u>\$ 179,747</u>	<u>\$ 48,401</u>	<u>\$ 461,187</u>	<u>\$ 448,809</u>

City Of Long Beach
Reconciliation of Statement of Revenues,
Expenditures, and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Fiscal Year Ended September 30, 2006
(in Thousands)

Amounts reported for governmental activities in the statement of activities are different because:

Excess of revenue and other sources over expenditures and other uses - total governmental funds	\$ 12,378
Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful life and reported as depreciation expense. This is the amount by which capital outlay exceeds depreciation in the current period. (Note 3)	94,830
Net effect of miscellaneous transactions involving capital assets (for example, sales, trade-ins and donations) is a decrease to net assets.	(424)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.	473
Governmental funds report expenditures pertaining to the establishment of certain long-term loans made. Payments on these long-term receivables are recorded as revenue in the governmental funds. These deferred credits are not reported on the statement of net assets and, therefore, the corresponding net expense is not reported on the statement of activities.	8,887
The issuance of long-term debt (for example, bonds and leases) provides current financial resources to governmental funds, while the payment of the principal of long-term debt consumes the current financial resources of the governmental funds. Neither transaction, however, has any affect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The net effect of these differences in the treatment of long-term debt and related items is reflected herein. (Note 3)	16,102
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in government funds. (Note 3)	(1,375)
Internal service funds are used by management to charge the cost of certain services to individual funds. The net loss of of certain activities of internal service funds is reported as governmental activities. (Note 3)	<u>12,966</u>
Change in net assets of governmental activities	<u>\$ 143,837</u>

The notes to the basic financial statements are an integral part of this statement.

City of Long Beach
General Fund
Statement of Revenues, Expenditures and
Changes in Fund Balances -
Budget and Actual (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended September 30, 2006
(In Thousands)

	Budgeted Amounts		Actual on Budgetary Basis	Variance with Final Budget - Favorable (Unfavorable)
	Original	Final		
Revenues:				
Property Taxes	\$ 63,528	\$ 63,528	\$ 61,823	\$ (1,705)
Sales Taxes	47,738	47,738	49,099	1,361
Utility Users Taxes	41,215	41,215	40,637	(578)
Other Taxes	44,765	46,265	44,573	(1,692)
Licenses and Permits	20,363	20,363	23,143	2,780
Fines and Forfeitures	14,391	14,391	16,387	1,996
Use of Money and Property	22,006	22,006	17,707	(4,299)
From Other Agencies	30,860	30,860	38,652	7,792
Charges for Services	27,310	25,481	26,980	1,499
Other	12,504	13,128	6,310	(6,818)
Total Revenues	<u>324,680</u>	<u>324,975</u>	<u>325,311</u>	<u>336</u>
Expenditures:				
Current:				
Legislative and Legal	13,150	13,406	12,584	822
General Government	11,364	9,745	14,838	(5,093)
Public Safety	245,316	249,368	247,321	2,047
Public Health	4,882	4,367	4,360	7
Community and Cultural	45,034	44,760	43,778	982
Public Works	32,532	27,609	26,516	1,093
Total Current Expenditures	<u>352,278</u>	<u>349,255</u>	<u>349,397</u>	<u>(142)</u>
Debt Service:				
Principal	5,645	6,217	6,136	81
Interest	5,980	6,184	5,374	810
Total Expenditures	<u>363,903</u>	<u>361,656</u>	<u>360,907</u>	<u>749</u>
Excess of Revenues Over (Under) Expenditures	<u>(39,223)</u>	<u>(36,681)</u>	<u>(35,596)</u>	<u>1,085</u>
Other Financing Sources (Uses):				
Proceeds from Other				
Long-Term Obligations	-	2,902	2,902	-
Advances change in Principal	-	-	1,780	1,780
Transfers In	33,558	35,571	34,590	(981)
Transfers Out	102	(7,264)	(7,742)	(478)
Total Other Financing Sources	<u>33,660</u>	<u>31,209</u>	<u>31,530</u>	<u>321</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>(5,563)</u>	<u>(5,472)</u>	<u>(4,066)</u>	<u>1,406</u>
Fund Balances - October 1, Budgetary Basis	148,515	148,515	148,515	-
Encumbrances, Beginning of the Year	1,714	1,714	1,714	-
Fund Balances - September 30, Budgetary Basis	<u>\$ 144,666</u>	<u>\$ 144,757</u>	<u>\$ 146,163</u>	<u>\$ 1,406</u>

The notes to the basic financial statements are an integral part of this statement.

City of Long Beach
Housing Development Fund
Statement of Revenues, Expenditures and
Changes in Fund Balances -
Budget and Actual (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended September 30, 2006
(In Thousands)

	<u>Budgeted Amounts</u>		<u>Actual On</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Budgetary</u>	<u>with Final</u>
			<u>Basis</u>	<u>Budget -</u>
				<u>Favorable</u>
				<u>(Unfavorable)</u>
Revenues:				
Property Taxes	\$ 11,625	\$ 13,042	\$ 15,852	\$ 2,810
Licenses and Permits	10	333	165	(168)
Use of Money and Property	466	371	1,203	832
From Other Agencies	11,646	12,288	250	(12,038)
Other	173	246	1,235	989
Total Revenues	<u>23,920</u>	<u>26,280</u>	<u>18,705</u>	<u>(7,575)</u>
Expenditures:				
General Government	77	77	72	5
Community and Cultural	<u>64,694</u>	<u>55,981</u>	<u>9,619</u>	<u>46,362</u>
Total Current Expenditures	64,771	56,058	9,691	46,367
Debt Service:				
Principal	920	920	907	13
Interest	504	393	407	(14)
Debt Administration Fees	14	14	-	14
Total Expenditures	<u>66,209</u>	<u>57,385</u>	<u>11,005</u>	<u>46,380</u>
Excess of Revenues Over (Under) Expenditures	<u>(42,289)</u>	<u>(31,105)</u>	<u>7,700</u>	<u>38,805</u>
Other Financing Sources (Uses):				
Advances-Capitalized Interest	-	-	92	92
Transfers In	25,400	25,495	1,349	(24,146)
Transfers Out	<u>(3,519)</u>	<u>(12,519)</u>	<u>(5,753)</u>	<u>6,766</u>
Total Other Financing Sources (Uses)	<u>21,881</u>	<u>12,976</u>	<u>(4,312)</u>	<u>(17,288)</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>(20,408)</u>	<u>(18,129)</u>	<u>3,388</u>	<u>21,517</u>
Fund Balances - October 1, Budgetary Basis	<u>42,027</u>	<u>42,027</u>	<u>42,027</u>	<u>-</u>
Fund Balances - September 30, Budgetary Basis	<u>\$ 21,619</u>	<u>\$ 23,898</u>	<u>\$ 45,415</u>	<u>\$ 21,517</u>

The notes to the basic financial statements are an integral part of this statement.

City of Long Beach
Community Development Grants Fund
Statement of Revenues, Expenditures and
Changes in Fund Balances -
Budget and Actual (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended September 30, 2006
(In Thousands)

	<u>Budgeted Amounts</u>		<u>Actual On</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Budgetary</u>	<u>with Final</u>
			<u>Basis</u>	<u>Budget -</u>
				<u>Favorable</u>
				<u>(Unfavorable)</u>
Revenues:				
Licenses and Permits	\$ 1	\$ 3	\$ 2	\$ (1)
Use of Money and Property	1,053	1,218	661	(557)
From Other Agencies	70,047	71,636	22,853	(48,783)
Other	1,620	2,349	3,254	905
Total Revenues	<u>72,721</u>	<u>75,206</u>	<u>26,770</u>	<u>(48,436)</u>
Expenditures:				
General Government	394	879	267	612
Community and Cultural	69,257	67,203	22,986	44,217
Total Current Expenditures	<u>69,651</u>	<u>68,082</u>	<u>23,253</u>	<u>44,829</u>
Total Expenditures	<u>69,651</u>	<u>68,082</u>	<u>23,253</u>	<u>44,829</u>
Excess of Revenues Over (Under) Expenditures	<u>3,070</u>	<u>7,124</u>	<u>3,517</u>	<u>(3,607)</u>
Other Financing Sources (Uses):				
Transfers In	-	142	197	55
Transfers Out	-	(3,810)	(2,875)	935
Total Other Financing Sources (Uses)	<u>-</u>	<u>(3,668)</u>	<u>(2,678)</u>	<u>990</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>3,070</u>	<u>3,456</u>	<u>839</u>	<u>(2,617)</u>
Fund Balances - October 1, Budgetary Basis	9,154	9,154	9,154	-
Encumbrances - Beginning of the Year	<u>26</u>	<u>26</u>	<u>26</u>	<u>-</u>
Fund Balances - September 30, Budgetary Basis	<u>\$ 12,250</u>	<u>\$ 12,636</u>	<u>\$ 10,019</u>	<u>\$ (2,617)</u>

The notes to the basic financial statements are an integral part of this statement.

City of Long Beach
Proprietary Funds
Statement of Net Assets (Deficit)
September 30, 2006
With Summarized Financial Information for 2005
(In Thousands)

	<u>Business-type Activities - Enterprise Funds</u>				
	<u>Gas</u>	<u>Water</u>	<u>Solid Waste Management</u>	<u>Tidelands</u>	<u>Tideland Oil Revenue</u>
ASSETS					
Current Assets:					
Pooled Cash and Cash Equivalents	\$ 10,778	\$ 8,519	\$ 53,780	\$ 17,231	\$ 22,460
Non-Pooled Cash and Cash Equivalents	34	-	-	-	-
Non-Pooled Investments	-	603	-	-	-
Receivables:					
Interest Receivable	-	-	-	-	-
Accounts Receivable	3,684	5,319	9,653	6,926	43,734
Due from Other Governments	-	-	869	390	2
Due from Other Funds	698	70	-	15,956	-
Capital Leases Receivable-Current	-	-	-	386	-
Other Receivables	-	-	-	-	-
Allowance for Receivables	(448)	(214)	(291)	(4,150)	-
Inventory	1,025	1,974	-	109	-
Other Assets-Current	-	-	-	-	-
Total Current Asset	<u>15,771</u>	<u>16,271</u>	<u>64,011</u>	<u>36,848</u>	<u>66,196</u>
Restricted Assets:					
Pooled Cash and Cash Equivalents	4,092	2,067	650	14,913	-
Non-Pooled Cash and Cash Equivalents	-	-	-	20,041	-
Non-Pooled Investments	650	2,996	11,718	-	-
Interest Receivable	-	-	-	247	-
Accounts Receivable	-	-	-	-	-
Deposits	-	-	-	-	-
Total Restricted Assets	<u>4,742</u>	<u>5,063</u>	<u>12,368</u>	<u>35,201</u>	<u>-</u>
Noncurrent Assets:					
Noncurrent Receivables:					
Capital Lease Receivable	-	-	-	527	-
Other Noncurrent Receivables (net)	-	-	5,637	-	610
Advances to Other Funds	4,946	-	-	-	-
Capital Assets:					
Land and Other Capital Assets not being Depreciated	5,399	32,830	7,366	76,049	-
Capital Assets net of Accumulated Depreciation	59,875	215,644	43,759	301,290	-
Other Assets-Long-Term	-	1,978	-	14,591	324,800
Total Noncurrent Assets	<u>70,220</u>	<u>250,452</u>	<u>56,762</u>	<u>392,457</u>	<u>325,410</u>
Total Assets	<u>90,733</u>	<u>271,786</u>	<u>133,141</u>	<u>464,506</u>	<u>391,606</u>

Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds	
Harbor	Other Proprietary Funds	Totals Proprietary Funds		September 30, 2006	September 30, 2005
		September 30, 2006	September 30, 2005		
\$ 563,904	\$ 25,390	\$ 702,062	\$ 616,013	\$ 89,623	\$ 104,842
-	-	34	-	-	-
-	-	603	603	-	-
576	-	576	716	-	-
47,784	2,428	119,528	126,796	10,096	1,134
2,808	2,640	6,709	2,628	702	966
153	-	16,877	11,114	6,534	5,643
-	-	386	351	-	-
-	64	64	62	-	-
(6,020)	(311)	(11,434)	(11,258)	(329)	(249)
928	66	4,102	4,088	1,737	1,519
-	-	-	21	-	-
610,133	30,277	839,507	751,134	108,363	113,855
259,113	150,712	431,547	415,682	7,326	14,332
21,922	1,043	43,006	41,981	12,357	11,977
32,231	3,169	50,764	51,016	-	-
-	35	282	288	-	-
-	291	291	341	-	-
-	-	-	-	6,858	2,848
313,266	155,250	525,890	509,308	26,541	29,157
-	-	527	913	-	-
6,788	487	13,522	13,278	2,137	-
27,435	8,114	40,495	37,134	-	-
1,202,281	15,102	1,339,027	1,294,455	9,662	7,314
989,150	112,959	1,722,677	1,780,991	122,851	124,094
73,722	-	415,091	397,037	71,420	78,565
2,299,376	136,662	3,531,339	3,523,808	206,070	209,973
3,222,775	322,189	4,896,736	4,784,250	340,974	352,985

(continued)

City of Long Beach
Proprietary Funds
Statement of Net Assets (Deficit)
September 30, 2006
With Summarized Financial Information for 2005
(In Thousands)
(continued)

Business-type Activities - Enterprise Funds

	<u>Gas</u>	<u>Water</u>	<u>Solid Waste Management</u>	<u>Tidelands</u>	<u>Tideland Oil Revenue</u>
LIABILITIES					
Current Liabilities Payable from Current Assets:					
Accounts Payable	\$ 9,911	\$ 6,535	\$ 4,101	\$ 6,398	\$ 15,548
Accrued Wages	365	317	243	492	113
Accrued Interest Payable	-	-	7	174	-
Due to Other Funds	180	250	120	941	1,764
Deferred Revenues	567	-	-	2,939	-
Collections Held in Trust	-	-	527	86	1,149
Advances from Developers	-	234	-	-	-
Employee Benefits	-	-	-	-	-
Accrued Self-Insurance Claims - Current	-	-	-	-	-
Due to State of California	-	-	-	-	5,470
Obligations Under Capital Leases-Current	-	-	-	2,331	-
Bonds Payable Due Within One Year	-	-	-	8,065	-
Other Long-Term Obligations-Current	-	-	-	1,394	-
Total Current Liabilities	11,023	7,336	4,998	22,820	24,044
Current Liabilities Payable from Restricted Assets:					
Accounts Payable	-	-	-	-	-
Accrued Interest Payable	29	785	1,567	3,676	-
Customers Deposits/Deferred Revenue	1,822	707	-	25	-
Other Long-Term Obligations	-	143	-	-	-
Bonds Payable Due Within One Year	905	1,210	6,540	-	-
Total Liabilities Payable from Restricted Assets	2,756	2,845	8,107	3,701	-
Noncurrent Liabilities:					
Advances from Other Funds	-	-	-	19,538	-
Deferred Revenues	-	-	5,637	-	-
Employee Benefits	-	-	-	-	-
Accrued Self-Insurance Claims	-	-	-	-	-
Accrued Oil Field Abandonment Costs	-	-	-	-	324,800
Due to State of California	-	-	-	-	610
Obligations Under Capital Leases	-	-	-	3,788	-
Other Long-Term Obligations	7,755	6,087	-	28,326	-
Unamortized Discount/Deferred cost	-	(51)	-	-	-
Bonds Payable	5,595	33,465	101,155	178,890	-
Unamortized Discount/Deferred cost	(107)	(3,447)	1,865	(16,745)	-
Total Noncurrent Liabilities	13,243	36,054	108,657	213,797	325,410
Total Liabilities	27,022	46,235	121,762	240,318	349,454
NET ASSETS (DEFICIT)					
Investment in Capital Assets, Net of Related Debt	51,126	210,282	(58,435)	171,290	-
Restricted for:					
Debt Service	785	4,355	11,706	21,927	-
Capital Projects	2,106	-	650	1,346	-
Health Care Insurance	-	-	-	-	-
Harbor Project Contingencies	-	-	-	-	-
Aquarium	-	-	-	7,978	-
Subsidence	-	-	-	-	-
Unrestricted	9,694	10,914	57,458	21,647	42,152
Total Net Assets (Deficit)	\$ 63,711	\$ 225,551	\$ 11,379	\$ 224,188	\$ 42,152

Adjustment to Reflect the Consolidation of Internal Service Fund Activities Related to Enterprise Funds

Net Assets of Business - Type Activities

The notes to the basic financial statements are an integral part of this statement.

Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds	
Harbor	Other Proprietary Funds	Totals Proprietary Funds		September 30, 2006	September 30, 2005
		September 30, 2006	September 30, 2005		
\$ 49,464	\$ 1,775	\$ 93,732	\$ 47,955	\$ 3,398	\$ 7,041
6,354	345	8,229	7,517	33,977	30,286
149	168	498	646	4,691	3,481
15,206	244	18,705	12,617	678	649
17,227	8,422	29,155	23,913	-	-
-	158	1,920	4,968	489	513
-	32	266	300	-	-
-	-	-	-	6,200	7,900
-	-	-	-	19,010	21,750
-	-	5,470	105,373	-	-
-	-	2,331	2,102	2,214	1,887
-	-	8,065	4,660	7,710	7,300
41	785	2,220	1,953	-	-
88,441	11,929	170,591	212,004	78,367	80,807
-	65	65	30	-	-
17,746	-	23,803	26,389	-	-
-	-	2,554	2,733	-	-
-	-	143	138	-	-
38,335	-	46,990	43,330	-	-
56,081	65	73,555	72,620	-	-
-	-	19,538	16,483	-	-
-	6,235	11,872	8,712	-	-
-	-	-	-	64,356	61,576
-	-	-	-	85,780	112,362
18,300	-	343,100	328,700	-	-
-	-	610	610	-	-
-	-	3,788	5,470	7,161	2,449
60,192	10,195	112,555	95,101	-	-
-	(1,167)	(1,218)	(1,629)	-	-
993,480	-	1,312,585	1,361,620	151,185	161,295
24,135	-	5,701	7,932	(13,350)	(15,016)
1,096,107	15,263	1,808,531	1,822,999	295,132	322,666
1,240,629	27,257	2,052,677	2,107,623	373,499	403,473
1,079,606	118,248	1,572,117	1,564,750	71,300	66,410
103,480	1,098	143,351	145,798	5,710	9,604
51,648	4,224	59,974	125,609	-	-
-	-	-	-	14,125	13,088
162,603	-	162,603	78,587	-	-
-	-	7,978	7,397	-	-
-	149,863	149,863	148,484	-	-
584,809	21,499	748,173	606,002	(123,660)	(139,590)
\$ 1,982,146	\$ 294,932	2,844,059	2,676,627	\$ (32,525)	\$ (50,488)
		(14,678)	(19,675)		
		\$ 2,829,381	\$ 2,656,952		

City of Long Beach
Proprietary Funds
Statement of Revenues, Expenses and Changes in Fund Net Assets (Deficit)
For the Fiscal Year Ended September 30, 2006
With Summarized Financial Information for 2005
(In Thousands)

	Business-type Activities - Enterprise Funds				
	Gas	Water	Solid Waste Management	Tidelands	Tideland Oil Revenue
Operating Revenues:					
Licenses and Permits	\$ -	\$ -	\$ -	\$ 475	\$ -
Fees, Concessions and Rentals	-	-	-	30,595	261,308
From Other Agencies	-	-	-	582	-
Charges for Services	107,481	66,074	78,173	40,463	5,509
Other	-	-	-	-	168
Total Operating Revenues	107,481	66,074	78,173	72,115	266,985
Operating Expenses:					
Personal Services	11,611	12,974	10,661	27,700	4,282
Purchases of Gas and Water	69,643	19,179	-	-	-
Maintenance and Other Operations	15,166	20,858	54,301	50,336	7,193
Insurance Premiums	-	-	-	-	-
Self-Insured Losses	-	-	-	-	-
Compensated Absences	-	-	-	-	-
Employee Benefits	-	-	-	-	-
Payments to Other Entities	-	-	-	-	253,010
Bad Debt	366	48	256	-	-
Amortization	-	-	-	573	-
Depreciation	3,242	7,922	4,474	15,729	-
Total Operating Expenses	100,028	60,981	69,692	94,338	264,485
Operating Income (Loss)	7,453	5,093	8,481	(22,223)	2,500
Non-Operating Income (Expense):					
Interest Income	676	653	2,424	3,461	-
Interest Expense	(402)	(2,255)	(5,012)	(12,215)	-
Gain on Disposition of Fixed Assets	(441)	(213)	(7)	24	-
Oil Field Abandonment Costs	-	-	-	-	-
Operating Grants	-	-	1,126	-	-
Other Income (Expense)	5,572	1,124	1,842	874	7
Total Non-Operating Income (Expense)	5,405	(691)	373	(7,856)	7
Income (Loss) Before Contributions and Transfers	12,858	4,402	8,854	(30,079)	2,507
Capital Grants and Contributions	-	2,634	-	-	-
Transfers:					
Transfers In	-	-	-	37,589	-
Transfers Out	(17,002)	-	(1,258)	-	(18,163)
Change in Net Assets	(4,144)	7,036	7,596	7,510	(15,656)
Net Assets (Deficit) - October 1	67,855	218,515	3,783	216,678	57,808
Net Assets (Deficit)- September 30	\$ 63,711	\$ 225,551	\$ 11,379	\$ 224,188	\$ 42,152
Change in Net Assets of Business - Enterprise Funds					
Adjustment to Reflect the Consolidation of Internal Service Fund Activities Related to Enterprise Funds					
Change in Net Assets of Business - Type Activities					

The notes to the basic financial statements are an integral part of this statement.

Business-Type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds	
Harbor	Other Proprietary Funds	Totals Proprietary Funds		September 30, 2006	September 30, 2005
		September 30, 2006	September 30, 2005		
\$ -	\$ -	\$ 475	\$ 361	\$ -	\$ -
349,134	24,796	665,833	578,554	-	-
-	-	582	528	-	-
-	17,017	314,717	284,242	268,338	252,267
4,160	-	4,328	3,979	6,129	5,468
<u>353,294</u>	<u>41,813</u>	<u>985,935</u>	<u>867,664</u>	<u>274,467</u>	<u>257,735</u>
31,074	12,189	110,491	96,004	30,645	30,288
-	-	88,822	83,610	-	-
44,467	23,696	216,017	180,350	35,726	37,808
-	-	-	-	2,804	2,906
-	-	-	-	7,841	54,088
-	-	-	-	43,408	39,424
-	-	-	-	120,906	115,306
-	-	253,010	164,078	-	-
-	-	670	661	-	-
4,787	-	5,360	4,779	8,785	6,539
80,678	4,979	117,024	115,869	12,160	10,375
<u>161,006</u>	<u>40,864</u>	<u>791,394</u>	<u>645,351</u>	<u>262,275</u>	<u>296,734</u>
<u>192,288</u>	<u>949</u>	<u>194,541</u>	<u>222,313</u>	<u>12,192</u>	<u>(38,999)</u>
28,302	6,505	42,021	27,599	2,394	1,890
(54,110)	(724)	(74,718)	(79,105)	(9,947)	(8,737)
(1,392)	(12)	(2,041)	(665)	229	332
-	-	-	(13,310)	-	-
-	58	1,184	2,520	-	-
831	304	10,554	15,981	15,414	5,886
<u>(26,369)</u>	<u>6,131</u>	<u>(23,000)</u>	<u>(46,980)</u>	<u>8,090</u>	<u>(629)</u>
165,919	7,080	171,541	175,333	20,282	(39,628)
2,298	4,015	8,947	25,806	176	34,546
-	-	37,589	26,352	484	1,350
<u>(14,222)</u>	<u>-</u>	<u>(50,645)</u>	<u>(40,665)</u>	<u>(2,979)</u>	<u>(5,859)</u>
153,995	11,095	167,432	186,826	17,963	(9,591)
<u>1,828,151</u>	<u>283,837</u>	<u>2,676,627</u>	<u>2,489,801</u>	<u>(50,488)</u>	<u>(40,897)</u>
<u>\$ 1,982,146</u>	<u>\$ 294,932</u>	<u>\$ 2,844,059</u>	<u>\$ 2,676,627</u>	<u>\$ (32,525)</u>	<u>\$ (50,488)</u>
		167,432	186,826		
		<u>(14,678)</u>	<u>(19,675)</u>		
		<u>\$ 152,754</u>	<u>\$ 167,151</u>		

City of Long Beach
Proprietary Funds
Statement of Cash Flows
For the Fiscal Year Ended September 30, 2006
With Summarized Financial Information for 2005
(In Thousands)

Business-Type Activities - Enterprise Funds

<u>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</u>	<u>Gas</u>	<u>Water</u>	<u>Solid Waste Management</u>	<u>Tidelands</u>	<u>Tideland Oil Revenue</u>
Cash Flows from Operating Activities:					
Receipts from Customers	\$ 107,558	\$ 67,382	\$ 74,405	\$ 71,571	\$ -
Receipts from Oil Companies	-	-	-	-	273,420
Receipts from Other Governments	-	-	-	369	-
Receipts from Other Funds	-	-	-	-	-
Payments for Employee Salaries	(11,383)	(12,946)	(10,627)	(27,557)	(4,274)
Payments for Goods and Services	(83,631)	(34,291)	(53,332)	(48,361)	3,592
Payments for Compensated Absences	-	-	-	-	-
Payments for Employee Benefits	-	-	-	-	-
Payments for Liability Claims	-	-	-	-	-
Payments to Other Entities	-	-	-	-	(352,914)
Payments in Lieu of Taxes	-	(4,570)	-	-	-
Other Income (Expense)	5,571	1,141	1,843	796	6
Net Cash Provided by (Used for) Operating Activities	<u>18,115</u>	<u>16,716</u>	<u>12,289</u>	<u>(3,182)</u>	<u>(80,170)</u>
Cash Flows from Non-Capital Financing Activities:					
Operating Grants Received from Other Governments	-	-	865	-	-
Transfers In	-	-	-	32,042	-
Receipts for Oil Well Abandonment Reserve	-	-	-	-	-
Transfers Out	(17,002)	-	(1,258)	-	(18,163)
Net Cash Provided by (Used for) Non-Capital Financing Activities	<u>(17,002)</u>	<u>-</u>	<u>(393)</u>	<u>32,042</u>	<u>(18,163)</u>
Cash Flows from Capital and Related Financing Activities:					
Receipt of Capital Grants	-	2,671	-	-	-
Proceeds from the Sale of Capital Assets	-	64	-	24	-
Proceeds from Issuance of Long-Term Obligations	-	-	-	16,615	-
Proceeds from Issuance of Bonds	7,755	-	-	50,898	-
Receipts of Contributed Capital	-	-	-	-	-
Principal Received on Capital Leases	-	-	-	351	-
Principal Received on Capital Leases from other funds	663	-	-	-	-
Payments for Capital Acquisitions	(10,396)	(15,178)	-	(18,408)	-
Payments of Principal on Bonds Payable	(885)	(1,155)	(6,355)	(4,925)	-
Payments of Principal on Other Long- Term Obligations	-	(138)	-	(3,441)	-
Payments to Defeas Bonds	-	-	-	(48,815)	-
Payments of Interest	(393)	(2,027)	(4,813)	(14,004)	-
Net Cash Used for Capital and Related Financing Activities	<u>(3,256)</u>	<u>(15,763)</u>	<u>(11,168)</u>	<u>(21,705)</u>	<u>-</u>
Cash Flows from Investing Activities:					
Proceeds from the Sale of Investments	114	-	(273)	-	-
Payment for Investments	-	-	-	-	-
Payments to Other Government Entities	-	-	-	-	-
Harbor Oil Operations Providing Cash	-	-	-	-	-
Receipts of Interest	674	654	2,424	3,566	-
Net Cash Provided by Investing Activities	<u>788</u>	<u>654</u>	<u>2,151</u>	<u>3,566</u>	<u>-</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(1,355)</u>	<u>1,607</u>	<u>2,879</u>	<u>10,721</u>	<u>(98,333)</u>
Cash and Cash Equivalents - October 1	<u>16,259</u>	<u>8,979</u>	<u>51,551</u>	<u>41,464</u>	<u>120,793</u>
Cash and Cash Equivalents - September 30	<u>\$ 14,904</u>	<u>\$ 10,586</u>	<u>\$ 54,430</u>	<u>\$ 52,185</u>	<u>\$ 22,460</u>

Business-Type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds	
Harbor	Other Proprietary Funds	Totals Proprietary Funds		September 30, 2006	September 30, 2005
		September 30, 2006	September 30, 2005		
\$ 354,167	\$ 45,557	\$ 720,640	\$ 654,369	\$ 5,849	\$ 4,745
-	-	273,420	189,300	-	-
-	-	369	822	-	-
-	-	-	-	259,265	251,548
(25,772)	(12,127)	(104,686)	(88,532)	(30,836)	(30,042)
(48,091)	(15,280)	(279,394)	(251,282)	(42,372)	(36,686)
-	-	-	-	(53,787)	(53,553)
-	-	-	-	(123,277)	(113,434)
-	-	-	-	(23,479)	(2,316)
-	-	(352,914)	(72,654)	-	-
-	(8,291)	(12,861)	(11,451)	-	-
-	510	9,867	(3,575)	15,263	5,730
280,304	10,369	254,441	416,997	6,626	25,992
-	58	923	2,404	-	-
-	-	32,042	22,794	484	-
-	-	-	(63,828)	-	-
(9,500)	-	(45,923)	(38,016)	(2,982)	(4,508)
(9,500)	58	(12,958)	(76,646)	(2,498)	(4,508)
1,113	3,852	7,636	7,641	-	-
78	-	166	93	342	499
-	-	16,615	277,683	4,830	10,328
-	-	58,653	7,675	-	-
-	2,739	2,739	19,201	176	165
-	-	351	319	-	-
-	-	663	633	-	-
(59,189)	(11,994)	(115,165)	(146,149)	(13,376)	(14,534)
(34,935)	(750)	(49,005)	(334,167)	-	-
(55)	-	(3,634)	3,594	(11,628)	(8,356)
-	-	(48,815)	(7,560)	-	(7,605)
(58,059)	(580)	(79,876)	(67,687)	(8,710)	(7,919)
(151,047)	(6,733)	(209,672)	(238,724)	(28,366)	(27,422)
3,500	369	3,710	6,166	-	-
-	-	-	(20,855)	-	-
-	(4,061)	(4,061)	(4,054)	-	-
29,562	-	29,562	11,388	-	-
28,208	6,425	41,951	28,313	2,393	1,889
61,270	2,733	71,162	20,958	2,393	1,889
181,027	6,427	102,973	122,585	(21,845)	(4,049)
663,912	170,718	1,073,676	951,091	131,151	135,200
\$ 844,939	\$ 177,145	\$ 1,176,649	\$ 1,073,676	\$ 109,306	\$ 131,151

(continued)

City of Long Beach
Proprietary Funds
Statement of Cash Flows
For the Fiscal Year Ended September 30, 2006
With Summarized Financial Information for 2005
(In Thousands)
(Continued)

Business-Type Activities - Enterprise Funds

<u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES</u>	<u>Gas</u>	<u>Water</u>	<u>Solid Waste Management</u>	<u>Tidelands</u>	<u>Tideland Oil Revenue</u>
Operating Income (Loss)	\$ 7,453	\$ 5,093	\$ 8,481	\$ (22,223)	\$ 2,500
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used for)					
Operating Activities:					
Depreciation and Amortization Expense	3,242	7,922	4,474	16,302	-
Other Income (Expense)	5,571	1,189	1,843	796	6
(Increase) Decrease in Accounts Receivable, Net	383	1,366	(3,318)	(715)	9,531
(Increase) Decrease in Amounts Due from Other Governments	-	-	(142)	(213)	(99,899)
(Increase) Decrease in Amounts Due from Other Funds	-	850	-	-	-
(Increase) Decrease in Inventory	(11)	(65)	-	-	-
Decrease in Other Assets	-	-	-	-	-
Increase (Decrease) in Accounts Payable	1,338	391	1,049	1,953	10,135
Increase in Accrued Wages Payable	47	27	19	144	7
Increase (Decrease) in Amounts Due to Other Funds	32	-	15	20	650
Increase (Decrease) in Accrued Claims Payable	-	-	-	-	-
Increase (Decrease) in Deferred Revenues	182	-	(42)	721	-
Decrease in Deferred Credits	-	-	(80)	-	-
Increase (Decrease) in Collections Held in Trust	(122)	(57)	(10)	33	(3,100)
Total Adjustments	10,662	11,623	3,808	19,041	(82,670)
Net Cash Provided by (Used for) Operating Activities	<u>\$ 18,115</u>	<u>\$ 16,716</u>	<u>\$ 12,289</u>	<u>\$ (3,182)</u>	<u>\$ (80,170)</u>

The notes to the basic financial statements are an integral part of this statement.

Business-Type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds	
Harbor	Other Proprietary Funds	Totals Proprietary Funds		September 30, 2006	September 30, 2005
		September 30, 2006	September 30, 2005		
\$ 192,288	\$ 949	\$ 194,541	\$ 222,313	\$ 12,192	\$ (38,999)
85,465	4,979	122,384	120,648	20,945	16,914
-	518	9,923	(2,275)	11,407	3,037
(411)	(126)	6,710	(19,395)	(8,884)	25
-	-	(100,254)	91,918	265	(870)
-	-	850	768	(838)	(727)
58	5	(13)	19	(219)	22
-	-	-	1,322	-	-
821	(109)	15,578	4,968	(3,644)	3,679
449	61	754	2,834	4,770	4,036
350	223	1,290	2,052	(23)	313
-	-	-	-	(29,321)	38,180
1,284	3,829	5,974	(7,627)	-	-
-	-	(80)	(80)	-	-
-	40	(3,216)	(468)	(24)	382
88,016	9,420	59,900	194,684	(5,566)	64,991
<u>\$ 280,304</u>	<u>\$ 10,369</u>	<u>\$ 254,441</u>	<u>\$ 416,997</u>	<u>\$ 6,626</u>	<u>\$ 25,992</u>

City of Long Beach
Statement of Fiduciary Net Assets
Fiduciary Funds
September 30, 2006
(In Thousands)

	Private Purpose Trust	Agency Funds
ASSETS:		
Pooled Cash and Cash Equivalents	\$ -	\$ 10,954
Non-Pooled Cash and Cash Equivalents	-	5,447
Restricted Pooled Cash and Cash Equivalents	943	-
Land	-	11,000
Total Assets	<u>\$ 943</u>	<u>\$ 27,401</u>
LIABILITIES:		
Accounts Payable	-	91
Due to Special Assessment Bondholders	-	2,304
Collections Held in Trust	-	25,006
Total Liabilities	<u>-</u>	<u>27,401</u>
NET ASSETS:		
Held in Trust for Private Purpose Trust Funds	<u>\$ 943</u>	<u>\$ -</u>

City of Long Beach
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
September 30, 2006
(In Thousands)

	Private Purpose Trust
ADDITIONS:	
Interest Income	\$ 37
Contributions from Citizens	28
Total Additions	<u>65</u>
DEDUCTIONS:	
Community and Cultural	100
Change in Net Assets	(35)
Net Assets, October 1	<u>978</u>
Net Assets, September 30	<u>\$ 943</u>

The notes to the basic financial statements are an integral part of this statement.

**CITY OF LONG BEACH
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2006**

NOTE 1 – REPORTING ENTITY

Organization

The City of Long Beach, California (the City), operates under a City Charter originally adopted in 1921 and last amended in 2002. The City Charter establishes the current Mayor-Council-City Manager form of government, sets forth the powers and duties of the Mayor and City Council and defines the roles, duties, and form of organization of the City's various boards, commissions, and other offices. The City is divided into nine councilmanic districts, with Council persons elected to serve within their respective districts. The citizens, as a whole, elect a Mayor, City Auditor, City Attorney and City Prosecutor. The City Council appoints a City Manager who serves at the discretion of the Council.

Financial Reporting Entity

The City provides a full range of municipal services including police and fire, health and environmental, library, recreation, social services, public works, parks, planning and community development, public improvements. The City also provides for sanitation, gas, water, airport and towing services, and operates its international harbor facility and its Tidelands area (consisting of the beaches, Convention Center, Queen Mary, Rainbow Harbor, the Aquarium of the Pacific, marinas and oil extraction administrative operations) under a trust agreement with the State of California. It is the City's policy to establish activity fees and charges designed to recover the cost of providing services, including capital costs such as depreciation and debt service. Accordingly, the financial activities of these operations are accounted for as enterprise funds.

The accompanying basic financial statements present the financial activity of the City of Long Beach and its component units, entities for which the primary government is considered to be financially accountable. Blended component units, although separate legal entities, are in substance part of the government's operations. The City's discretely presented component unit represents a legally separate organization for which the nature and significance of its relationship to the primary government are such that exclusion would cause the City's reporting entity to be misleading or incomplete. Brief descriptions of these related blended and discretely presented component financial reporting units/entities and the method of incorporating their financial information in the accompanying basic financial statements are as follows:

Blended Component Entities

Housing Authority of the City of Long Beach (the Authority) is a public agency created by action of the City Council in 1969 to administer housing assistance programs for qualified residents. The Authority is governed by an eleven-member Board of Commissioners, comprised of the nine City Council members and two representatives elected by housing assistance benefit recipients. The Authority's administrative functions are directed and performed by City employees. The financial activity of the Authority is included in the Housing Assistance Fund, a non-major governmental fund.

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Redevelopment Agency of the City of Long Beach (the Agency) was established by action of the City Council in 1961 under provisions of State law. The Agency is administered by a five-member governing board whose members are appointed by, and serve at the will of, the City Council. The City Council approves the Agency's annual budget and changes thereto. Additionally, the City Council approves decisions that impact the Agency's fiscal operations, such as determination of redevelopment project areas, bonding decisions and sales of property. Further, the City provides all staffing, treasury management and investment analysis, facilities and administrative services to conduct the Agency's day-to-day operations. Accordingly, the financial activities of the Agency are blended with those of the City in the accompanying basic financial statements and are reported as the Redevelopment Capital Projects Fund.

To accomplish its stated purpose, the Agency assists the City by acquiring land and making such sites suitable for resale to contracted commercial developers. Agency parcels are often sold below the cost of acquisition, with the expectation that the proposed development will meet the objectives of removing blight, increasing local revenues, and expanding the City's economic base and employment opportunities. Such acquisitions are recorded as investments in land at cost, and are adjusted for estimated declines in fair value, upon negotiation of a development disposition agreement.

Long Beach Housing Development Company (the Company) is a non-profit corporation formed by action of the City Council in 1987 to plan, direct, perform and assist the City in meeting its statutorily mandated responsibility to provide adequate housing to low and moderate-income residents, senior citizens and disabled persons. Under California law, the Redevelopment Agency of the City of Long Beach is required to set aside 20% of its incremental property tax revenues to meet these needs. It is the Company's responsibility to assist the City and the Redevelopment Agency in assessing and addressing such needs. The City Council appoints the Company's Board of Directors, approves the Company's bylaws and changes thereto, approves the Company's budget and has ultimate authority over the Company's activities. In addition, the City provides all staffing, facilities and funding for the Company's operations. The financial activities are blended with those of the City in the accompanying basic financial statements and are accounted for in the Housing Development Fund. By electing to form a non-profit corporation to carry out functions that would ordinarily revert to the City, it is the City Council's intention that a greater potential for public/private partnerships be created.

Southeast Resource Recovery Facility (SERRF) Authority is a joint powers authority between the City of Long Beach and the Los Angeles County Sanitation District Number 2. The Authority was created to finance the construction of a waste-to-energy facility through the issuance of lease revenue bonds. Payments under the lease are intended to service bonded debt issued to finance construction of the project. For financial reporting purposes, the capital lease between the SERRF Authority and the City has been eliminated, and the financial activities of the SERRF Authority are included in the Solid Waste Management Enterprise Fund. (See Note 18).

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Non-profit Financing Corporations and Authorities:

The financial operations of several non-profit financing corporations and authorities organized for the purpose of financing various capital improvements or debt refinancings within the City are also included as blended component units in the accompanying basic financial statements. The activities of the organizations listed below are generally restricted to financing City related capital improvements. In this regard, the City Council either serves as the governing board or appoints the voting majority of the governing board, and otherwise exercises significant oversight and direct operational and financial control over these entities. Therefore, such entities meet established criteria for inclusion in the accompanying basic financial statements.

For the most part, these non-profit corporations enter into capitalizable leases with the City (See Note 11). However, for financial reporting purposes, such lease transactions are eliminated, and the related financing obligations and related capital assets are carried at cost in the accompanying basic financial statements.

The non-profit financing corporations established by the City are:

<u>Entity</u>	<u>Affected Fund Type</u>	<u>Affected Funds</u>
Long Beach Financing Authority	Governmental	Redevelopment Capital Projects Fund
Long Beach Bond Finance Authority	Governmental and Business-Type	Internal Service Funds Tidelands Fund Redevelopment Capital Projects Fund Gas Enterprise Fund Housing Assistance Fund
Long Beach Capital Improvement Corporation	Business-Type	Other Proprietary Enterprise Fund
Parking Authority of the City of Long Beach	Business-Type	Tidelands Fund

Separately issued financial statements are required for the Redevelopment Agency, the Housing Development Company and separate financing authorities due to financing or legal requirements. These separately issued financial statements may be obtained at City Hall. There is no requirement to separately issue financial statements for the remaining component financial reporting units; consequently, none are issued.

Discretely Presented Component Unit

The Long Beach Public Transportation Company (LBT) is a nonprofit corporation, formed in 1963 to purchase the local public transit system from a private carrier. The City is LBT's sole shareholder.

LBT is governed by a seven-member Board of Directors (Board) which provides broad policy and financial decisions, setting direction for management. The Mayor, with the approval of the City Council, appoints residents of the community to the Board to serve

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overlapping four-year terms. In addition, two designees of the City Manager's Office serve as ex-officio Board members but do not have voting authority. LBT's mission is "to provide public transit services that enhance and improve the quality of life for the people in our community."

LBT's governing body does not share common membership with that of the City and its service area overlaps other communities. The financial operations of the LBT are reported as a separate column in the basic financial statements to emphasize that it is legally and operationally separate from the City. Separate financial statements can be obtained from the Senior Vice President & CFO, Long Beach Transit, P.O. Box 731, Long Beach, CA 90801.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely, to a significant extent, on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items are not included among program revenues, as they are appropriately reported as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the accompanying government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the accompanying fund financial statements.

The basic financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the City's financial statements for the year ended September 30, 2005, from which the summarized information was derived.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The City's government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are

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recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, and except for reimbursement basis government revenues, which are recognized when earned, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, are recorded only when payment is due.

Property taxes and taxpayer-assessed tax revenues (e.g., franchise taxes, sales taxes, motor vehicle fees, etc.), net of estimated refunds and uncollectible amounts, and interest associated with the current fiscal period are all considered susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered measurable and available only when cash is received by the City. Property taxes levied for State fiscal year 2006-2007 equated approximately \$126 million. These amounts are included in the City fiscal year 2006-2007 budget and financial statements as the tax proceeds are received by the City in December 2006 and April 2007, and have not been recorded in the accompanying financial statements for fiscal year 2005-2006.

Major Governmental Funds

The General Fund is used to account for financial resources applicable to the general governmental operations of the City of Long Beach which are not required to be accounted for in another fund.

The Housing Development Fund is used to account for the portion of property tax increment monies which is required under California Redevelopment Law, Section 33334, to be set aside for the development of low and moderate-income housing. The operations of the Long Beach Housing Development Company are accounted for in the Housing Development Fund.

The Community Development Grants Fund accounts for Federal grants providing job training and employment opportunities for economically disadvantaged, unemployed, and under-employed persons, and Federal grants from the U.S. Department of Housing and Urban Development (HUD). HUD grants are for the development of viable urban communities providing housing, suitable living environments, and expanding economic opportunities, for persons of low and moderate- income.

The General Capital Projects Fund was established to account for the acquisition, construction, and improvement of capital facilities financed by grants and operating transfers from the General Fund and certain special revenue funds.

The Redevelopment Capital Projects Fund is used to account for the acquisition, relocation, demolition and sale of properties for the City of Long Beach's redevelopment areas. Redevelopment projects are mainly financed with property

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tax increment funds, operating transfers from the Community Development Grants Special Revenue Fund and bond proceeds. This fund is also used to account for the accumulation of resources for, and the payment of principal and interest on the Redevelopment Agency's bonded debt and other long-term obligations.

Major Enterprise Funds

The Gas Fund is used to account for the activities associated with the transmission and distribution of natural gas to the City's customers.

The Water Fund is used to account for the activities associated with the pumping, purchasing, treatment, transmission and distribution of potable and reclaimed water by the City to its customers.

The Solid Waste Management Fund is used to account for the City's refuse collection and resource recovery operations. The Southeast Resource Recovery Facility (SERRF) Authority is combined with the City's Solid Waste Management Fund for the purpose of financial statement presentation.

The Tidelands Fund is used to account for operations, maintenance and development of the beaches, Convention Center, the Queen Mary, the Aquarium of the Pacific, as well as the City's marinas. For the purpose of financial statement presentation, the Parking Authority of the City of Long Beach is combined with the Tidelands Fund.

The Tideland Oil Revenue Fund is used to account for the proceeds from oil operations within the City's Tidelands area.

The Harbor Fund is used to account for the operations and development of the Tidelands area port district, commonly referred to as the Port of Long Beach.

Additionally, the City reports the following fund types:

Internal Service Funds account for a variety of services provided to other departments or agencies of the City on a cost reimbursement basis. These services include information technology, fleet services, civic center and related maintenance and financing, liability insurance, workers' compensation insurance, unemployment insurance and employee benefits.

Fiduciary Funds include private trust and agency funds. Private trust funds account for assets and activities restricted to a specific purpose in accordance with a trust agreement. These include the Miller Library and Mayor's Fund for the Homeless, from which both principal and interest may be spent for the purposes outlined in the trusts. Agency funds account for assets held by the City as an agent for individuals, private organizations and other governmental units.

The City applies all Governmental Accounting Standards Board (GASB) Statements and Interpretations. As permitted by generally accepted accounting principles, the City has also elected to apply those Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989 that may apply to the accounting and reporting practices of the City's enterprise and business-type activities, except those

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that may conflict with GASB pronouncements. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenues include: 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Business-type activities distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a business-type activity's principal ongoing operations. The principal operating revenues of the City's business-type activities are charges for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Pooled Cash and Cash Equivalents

In order to maximize investment return, the City pools its available cash for investment purposes. The cash management pool is used essentially as a demand deposit account by the various funds; accordingly, the City has defined Cash and Cash Equivalents as demand deposits plus all investments maintained in the cash management pool, regardless of maturity period. In addition, several individual funds maintain specific investments over and above any pooled cash balances.

Interest income arising from pooled cash and investments is apportioned to the participating funds based on the relationship of their respective daily cash balances to the total of pooled cash and investments. Investments are stated at fair value as of September 30, 2006. (See Note 4).

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" for the current portion of interfund loans or "advances to/from other funds" for the non-current portion of interfund loans. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable, available financial resources.

Trade and property tax receivables are shown net of any provisions for uncollectible accounts.

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Inventories

Inventory of supplies are accounted for using the consumption method and are stated at average cost, applied on a first-in, first-out basis.

Capital Assets

Capital assets include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), and are reported in the applicable governmental or business-type activities columns in the accompanying government-wide financial statements.

Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest costs incurred during the construction phase of capital assets of business-type activities are included as part of the capitalized value of the constructed asset.

Capital assets of the primary government are depreciated on a straight-line basis, over the estimated useful lives of the assets, as follows:

Land Improvements	15-35 years
Buildings and Utility Plant	20-50 years
Structures and Facilities	10-35 years
Infrastructure	20-50 years
Automobiles	2-6 years
Automotive Equipment	10-20 years
Machinery and Equipment	5-20 years
Office Furniture, Fixtures and Equipment	3-20 years

Land parcels held for resale are recorded at cost, and are adjusted for estimated declines in fair value, upon negotiation of a development disposition agreement.

Long-Term Obligations

In the government-wide financial statements, and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Initial-issue bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. The difference between the reacquisition price of refunding bonds and the net carrying amount of refunded debt (deferred amount on refunding) is amortized over the shorter of the lives of the refunding debt or remaining life of the refunded debt. Bonds payable are reported net of the unamortized portion of applicable premium, discount or deferred amount on refunding.

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Bond issuance costs, including underwriters' discount, are reported as deferred bond issuance costs. Amortization of bond premiums or discounts, issuance costs and deferred amounts on refunding are generally included in interest expense unless otherwise noted.

In the accompanying fund financial statements, the City's governmental fund types recognize bond premiums, discounts and issuance costs during the period issued. The face amount of debt issued has been reported as other financing sources. Premiums received are reported as other financing sources, while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Net Assets and Fund Equity

In the government-wide financial statements and proprietary fund financial statements, net assets are reported in three categories: net assets invested in capital assets, net of related debt; restricted net assets; and, unrestricted net assets. Restricted net assets represent net assets restricted by parties outside of the City (such as investors, grantors, contributors, laws and regulations of other governments) and include unspent proceeds of bonds issued to acquire or construct capital assets. Nonexpendable portions of the private purpose trust funds are reported as held in trust. The City's other restricted net assets are temporarily restricted (ultimately expendable assets). All other net assets are considered unrestricted.

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not readily available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent City Council actions or policies that are subject to change.

Property Tax Calendar

Under the State Constitution, the property tax rate is limited to 1% of assessed value, but may be adjusted for specific voter-approved indebtedness. Property taxes are levied by the Los Angeles County (County) Tax Assessor and shared among all other local taxing authorities within the City. Accordingly, the County collects property taxes and distributes such taxes on the basis of the taxing authorities' tax rate percentages, allowing for such adjustments as may be authorized for voter-approved debt. Secured property taxes are levied during September of every year and become a lien on real property on January 1 of the calendar year for which taxes are levied. These tax payments can be made in two equal installments; the first is due November 1st and delinquent with penalties after December 10th; the second is due February 1st and delinquent with penalties after April 10th.

Revenue Recognition for Utility Funds

Utility revenues are recorded as billed to customers on a cyclical monthly basis. Unbilled amounts at year-end are not considered material and are not recognized as revenue.

Employee Benefits and Compensated Absences

Benefits for City employees are paid from the City's Employee Benefits Internal Service Fund, except for the residual balance of a City-administered Police and Fire Annuity Benefit Program that was terminated in 1945. The Employee Benefits Internal Service Fund is

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reimbursed through payroll charges to other funds based on estimates of benefits earned. The City's policy is to pay all accumulated vacation and holiday pay when an employee retires or terminates. Beginning August 1, 2006, management employees, upon retirement, have 75% of his/her outstanding vacation leave converted to sick leave.

Accumulated sick leave becomes vested only when an employee meets the City's minimum requirements for retirement. At the time of retirement, employees have the option of using the cash value equivalent of accumulated sick leave to continue in the City's health insurance plan or to purchase additional pension benefits from the State of California Public Employees' Retirement System (CalPERS). Accumulated sick leave is forfeited upon termination for reasons other than retirement. Through fiscal year 2005, the City also contributed up to 32 hours of accumulated sick leave each year to deferred compensation plans for active safety employees who had accumulated in excess of 40 days of sick leave as of January 1 of each calendar year. These deferred compensation contributions were funded and remitted to the City's deferred compensation third-party administrators.

The City makes annual contributions in varying amounts to deferred compensation plans for certain employee groups who serve in sensitive, confidential capacities. Effective January 1, 2005 this benefit ceased for safety employees. No other City employees received such benefit.

Through fiscal year 2005, the City had established an Integral Part Trust (Post Employment Medical Benefits) for police officers. This third-party administered trust provides reimbursements for post retirement medical expenses. For eligible employees, the value of 32 hours of accumulated sick leave and excess, unused vacation, using the employee's current wage rate, was deposited, pre-tax into a trust account maintained in the employee's name. This benefit to deposit the value of 32 hours of sick leave and excess leave was effective through fiscal year 2003. The excess vacation was effective through fiscal year 2005.

Vacation and holiday benefits are recognized when earned. Sick leave benefits are recognized on a pro-rata basis using an actuarially determined method. (See Note 13).

Budgetary Principles

The City Council adopted the fiscal year 2006 budget prior to September 30, 2005 for all funds except for agency funds. From the effective date of the budget, the amounts stated therein as proposed expenditures become appropriations to the various governmental funds. The City Council may amend the budget by motion during the fiscal year. The City Manager may transfer appropriations within the departments or within a given fund, without City Council approval, provided that the total appropriations at the fund level and at the department level do not change. Transfers of appropriation between funds or departments require City Council approval. Appropriations lapse at the end of the fiscal year to the extent they have not been expended or encumbered.

Budget information is presented in the accompanying basic financial statements for the General Fund, the Housing Development Fund and the Community Development Grants Fund on a non-GAAP budgetary basis, since appropriations represent budgeted amounts to be expended or encumbered during the year.

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Budgeted revenue and expenditure amounts represent the originally budgeted amounts as well as budgeted amounts as modified by adjustments authorized during the year. Total expenditures of each fund may not exceed fund appropriations, and total expenditures for each department may not exceed departmental appropriations.

Accounting for Encumbrances

Encumbrances outstanding at year-end are not reported as expenditures, but are reported as a reservation of fund balance available for subsequent year expenditures based on the encumbered appropriation authority carried over to the next fiscal year. For budgetary purposes, the City records an encumbrance as a charge against appropriations in the accounting period in which a purchase order is issued, rather than in the accounting period when goods or services are received as required by generally accepted accounting principles. (Adjustments necessary to convert actual expenditures from the modified accrual basis to the budgetary basis are reflected in Note 16).

Implementation of New Accounting Pronouncements

For the fiscal year ended September 30, 2006, the City adopted new accounting standards in order to conform to the following Governmental Accounting Standards Board (GASB) Statements:

- GASB Statement No. 42 Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries establishes accounting and financial reporting standards for the impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This Statement also clarifies and establishes accounting requirements for insurance recoveries. In the current year, the City did not identify any prominent events or changes resulting in impairment of capital assets.
- GASB Statement No. 44 Economic Condition Reporting: The Statistical Section (an amendment of NCGA Statement 1) guides the preparation of the statistical section. The statistical section presents detailed information, typically in ten-year trends, that assists users in utilizing the basic financial statements, notes to basic financial statements, and required supplementary information to assess the economic condition of a government. The City implemented this new reporting requirement in the current fiscal year.
- GASB Statement No. 46 Net Assets Restricted by Enabling Legislation addresses selected issues and amends GASB Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments. The Statement enhances the usefulness and comparability of net asset information and clarifies the meaning of legal enforceability. The Statement also specifies accounting and financial reporting requirements for restricted net assets. The adoption did not have a material impact on the City's financial statements.
- GASB Statement No. 47 Accounting for Termination Benefits provides accounting guidance for state and local governmental employers regarding

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benefits (such as early-retirement incentives and severance benefits) provided to employees that are terminated. The Statement requires recognition of the cost of involuntary termination benefits in the period in which a government becomes obligated to provide benefits to terminated employees. The adoption did not have a material impact on the City's financial statements.

The City is currently analyzing its accounting practices to determine the potential impact on the financial statements for the following GASB Statements:

In April 2004, GASB issued Statement No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans. This statement establishes uniform financial reporting standards for other postemployment benefits (OPEB) plans. The approach followed in this statement generally is consistent with the approach adopted for defined benefit pension plans with modifications to reflect differences between pension plans and OPEB plans. The statement applies to OPEB trust funds included in the financial reports of plan sponsors or employers, as well as the stand-alone financial reports of OPEB plans or the public employee retirement systems, or other third parties, that administer them. This statement also provides requirements for reporting of OPEB funds by administrators of multiple-employer OPEB plans, when the fund used to accumulate assets and pay benefits or premiums when due is not a trust fund. This statement is effective for the City's fiscal year ending September 30, 2007.

In June 2004, GASB issued Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, which addresses how state and local governments should account for and report their costs and obligations related to postemployment healthcare and other non-pension benefits. Collectively, these benefits are commonly referred to as other post-employment benefits, or OPEB. The statement generally requires that employers account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions. Annual OPEB costs for most employers will be based on actuarially determined amounts that, if paid on an ongoing basis, generally would provide sufficient resources to pay benefits as they come due. This statement's provisions may be applied prospectively and do not require governments to fund their OPEB plans. An employer may establish its OPEB liability at zero as of the beginning of the initial year of implementation; however, the unfunded actuarial liability is required to be amortized over future periods. This statement also establishes disclosure requirements for information about the plans in which an employer participates, the funding policy followed, the actuarial valuation process and assumptions, and, for certain employers, the extent to which the plan has been funded over time. This statement is effective for the City's fiscal year ending September 30, 2008.

In September 2006, GASB issued Statement No. 48 Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues. This statement establishes criteria that governments will use to determine whether certain transactions should be regarded as a sale and reported as revenue or regarded as collateralized borrowing and recorded as a liability. Examples of such transactions include the sale of delinquent taxes, certain mortgages, student loans, or future revenue such as those from tobacco settlement agreements. The statement also includes provisions that stipulate that governments should not revalue assets that are transferred between financial reporting entity components. The requirements of this statement are effective for the

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financial statements for periods beginning after December 15, 2006. The City plans on implementing GASB Statement No. 48 for the fiscal year ended September 30, 2008.

Estimates

The preparation of the City's basic financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

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NOTE 3 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Explanation of Differences Between the Governmental Funds Balance Sheet and the Government-Wide Statement of Net Assets

The governmental funds balance sheet includes a reconciliation between fund balance – total governmental funds, and net assets – governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that “long-term liabilities, excluding those liabilities in the internal service funds, are not due and payable in the current period and therefore are not reported in the funds.” The details of this difference are as follows (in thousands):

Bonds Payable (Note 9)	\$ 421,201
Less: Deferred charge on refunding (to be amortized as interest expense)	(2,439)
Plus: issuance premium (to be amortized as a reduction of interest expense)	10,390
Less: issuance discount (to be amortized as an increase of interest expense)	(752)
Notes, certificates of participation, commercial paper and other long-term obligations	46,142
Capital lease payable	25,756
Accrued interest payable	6,380
Less: deferred charge for issuance costs (to be amortized over life of debt)	<u>(8,793)</u>
Net adjustment to reduce fund balance – total governmental funds to arrive at net assets – governmental activities	<u>\$ 497,885</u>

Explanation of Certain Differences Between the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances and the Government-Wide Statement of Activities

The governmental funds statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds, and changes in net assets of governmental activities as reported in the government-wide statement of activities. Various elements of this reconciliation are explained below. Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The details of this difference are as follows (in thousands):

Capital outlay	\$ 40,938
Contributed Asset	78,505
Depreciation expense	<u>(24,613)</u>
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ 94,830</u>

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The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the long-term debt principal consumes current financial resources. Neither transaction, however, has a net effect on net assets. Also, governmental funds report the effect of issuance costs, premiums/discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The details of this difference are as follows (in thousands):

Debt issued or incurred:	
Issuance of revenue bonds	\$ 35,045
Plus premiums	2,455
Less Issuance costs	(1,178)
Increase of notes, certificates of participation, commercial paper and other long-term obligations due to deferral of charges	220
Capital leases	2,902
Principal repayments:	
Revenue bond debt	(8,945)
Notes, certificates of participation, commercial paper and other long-term obligations	(1,111)
Police and fire annuities paid (closed plan)	(4,589)
Capital leases	(4,766)
Payment to escrow agent for refunding	<u>(36,135)</u>
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	\$ <u>16,102</u>

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. The details of this difference are as follows (in thousands):

Increase in liability for police and fire annuities	\$ (1,523)
Accrued interest	261
Amortization of premium	449
Amortization of discount	(27)
Amortization of issuance cost	(367)
Amortization of deferred charge on refunding	(68)
Change in estimated liability for future oil field abandonment costs	<u>(100)</u>
Net difference	\$ <u>(1,375)</u>

CITY OF LONG BEACH
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

The net revenues of certain activities of internal service funds are reported with governmental activities. The details of this difference are as follows (in thousands):

Change in net assets as reported in the internal service funds	\$ 17,963
Activities of internal service funds related to enterprise funds are allocated to business-type activities, resulting in a negative internal balance in governmental activities	<u>(4,997)</u>
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ 12,966</u>

NOTE 4 – CASH AND INVESTMENTS

Cash and Investments as of September 30, 2006 are classified in the accompanying financial statements as follows (in thousands):

Statement of net assets:	
Cash and investments in City pool	\$ 1,438,524
Cash and investments held by bond trustee	<u>272,094</u>
Total cash and investments	<u>\$ 1,710,618</u>

Cash and Investments as of September 30, 2006 consist of the following:	
Cash on hand	\$ 26,811
Outstanding Checks	(18,043)
Investments	<u>1,701,850</u>
Total cash and investments	<u>\$ 1,710,618</u>

A reconciliation of the cash, cash equivalents and investments between the basic financial statements and the fair value of the investment portfolio at September 30, 2006 is as follows (in thousands):

	Primary Government				Component Unit
	Governmental Activities	Business-type Activities	Fiduciary Funds	Total	
Pooled Cash and Cash Equivalents	\$ 282,342	\$ 702,062	\$ 10,954	\$ 995,358	\$ -
Non-Pooled Cash and Cash Equivalents	149,883	34	5,447	155,364	14,478
Non-Pooled Investments	10,000	603	-	10,603	-
Restricted Assets:					
Pooled Cash and Cash Equivalents	10,676	431,547	943	443,166	-
Non-Pooled Cash and Cash Equivalents	12,357	43,006	-	55,363	19,036
Non-Pooled Investment	-	50,764	-	50,764	-
Total Deposits and Investments	<u>\$ 465,258</u>	<u>\$ 1,228,016</u>	<u>\$ 17,344</u>	<u>\$ 1,710,618</u>	<u>\$ 33,514</u>

**CITY OF LONG BEACH
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2006**

Investments Authorized by the California Government Code and the City's Investment Policy

The table below identifies the investment types that are authorized by the City's investment policy. The table also identifies certain provisions of the City's investment policy that address interest rate risk, credit risk, and concentration of credit risk. This table does not address debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the City, rather than the general provision of the California Government Code or the City's investment policy.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Bonds issued by the City	5 years *	30%	None
U.S. Treasury notes, bonds, or bills	5 years *	None	None
Registered state warrants or treasury notes or bonds of the State of California	5 years *	30%	None
Local Agency Bonds	5 years *	30%	None
Federal agency securities	5 years *	None	None
Bankers Acceptances	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years *	30%	10%
Time Certificates of Deposit	5 years *	100%	10%
Repurchase Agreements	90 days	100%	None
Reverse Repurchase Agreements	92 days	20%	None
Securities Lending Program	92 days	20%	None
Medium-Term Notes	5 years *	30%	10%
Money Market Funds	N/A	20%	10%
Local Agency Investment Fund (LAIF)	N/A	None	\$40 million per account
Asset-backed Securities	5 years	20%	None
Mortgage-backed Securities	5 years	20%	None

* Maximum maturity of five (5) years unless a longer maturity is approved by the City Council, either specifically or as part of an investment program, at least three (3) months prior to purchase.

Investments Authorized by Debt Agreements

Investment of debt proceeds held by bond trustee are governed by provisions of the debt agreements.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments, and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming closer to maturity evenly over time as necessary to provide cash flow and liquidity needed for operations.

CITY OF LONG BEACH
NOTES TO BASIC FINANCIAL STATEMENTS
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The following schedule indicates the interest rate risk of the City's investments as of September 30, 2006 (in thousands):

Investment Type		Weighted Average Maturity (in years)
Inter-Department Loan (Health Savrs)	\$ 3,297	12.600
U.S. Treasury Notes	214,467	1.542
Federal agency securities	1,042,876	1.572
Medium-Term Notes	33,464	1.609
Short-term Commercial Paper	132,731	0.013
Local Agency Investment Fund (LAIF)	2,921	0.003
Subtotal City Pool	1,429,756	
Cash on Hand	26,811	
Outstanding Checks	(18,043)	
Total City Pool	<u>\$ 1,438,524</u>	
Guaranteed Investment Contracts	\$ 187,737	-
Money Market Funds	70,803	-
Time Certificates of Deposit	10,000	1.00
City Bonds	3,168	-
Local Agency Investment Fund (LAIF)	386	0.49
Total held by Bond Trustees	<u>\$ 272,094</u>	

Investments with Fair Values Highly Sensitive to Interest Rate Risk

The City had no investments that were highly sensitive to market interest rate changes as of September 30, 2006. Highly sensitive investments are investments whose sensitivity to market interest rate fluctuations are not fully addressed by use of one of the five methods for reporting interest rate risk.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the California Government Code, the City's investment policy, and the actual rating as of year end for each investment type (in thousands):

Rating as of Year End								
Investment Type		Minimum Legal Rating	Not Required To Be Rated	A-1+	A-1	AAA	AA-	Unrated
Inter-Department Loan (Health Savrs)	\$ 3,297	N/A	\$ 3,297	\$ -	\$ -	\$ -	\$ -	\$ -
U.S. Treasury Notes	214,467	N/A	214,467	-	-	-	-	-
Federal agency securities	1,042,876	N/A	-	-	-	1,042,876	-	-
Medium-Term Notes	33,464	A	-	-	-	28,445	5,019	-
Short-term Commercial Paper	132,731	N/A	-	75,773	56,958	-	-	-
Local Agency Investment Fund (LAIF)	2,921	N/A	2,921	-	-	-	-	-
Subtotal City Pool	1,429,756		220,685	75,773	56,958	1,071,321	5,019	-
Cash on Hand	26,811		-	-	-	-	-	26,811
Outstanding Checks	(18,043)		-	-	-	-	-	(18,043)
Total City Pool	<u>\$ 1,438,524</u>		<u>\$ 220,685</u>	<u>\$ 75,773</u>	<u>\$ 56,958</u>	<u>\$ 1,071,321</u>	<u>\$ 5,019</u>	<u>\$ 8,768</u>

Rating as of Year End								
Investment Type		Minimum Legal Rating	Not Required To Be Rated	A-1+	A-1	AAA	AA-	Unrated
Guaranteed Investment Contracts	\$ 187,737	N/A	\$ 187,737	\$ -	\$ -	\$ -	\$ -	\$ -
Money Market Funds	70,803	N/A	70,803	-	-	-	-	-
Time Certificates of Deposit	10,000	N/A	-	-	-	-	-	10,000
City Bonds	3,168	N/A	-	-	-	3,168	-	-
Local Agency Investment Fund (LAIF)	386	N/A	-	-	-	-	-	386
Total held by Bond Trustees	<u>\$ 272,094</u>		<u>\$ 258,540</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,168</u>	<u>\$ -</u>	<u>\$ 10,386</u>

**CITY OF LONG BEACH
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2006**

Concentration of Credit Risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer that represent 5% or more of the City's total pooled investments are as follows (in thousands):

<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>
Federal Farm Credit Bank	Federal Agency Securities	\$ 181,052
Federal Home Loan Bank	Federal Agency Securities	241,246
Federal Home Loan Mortgage Association	Federal Agency Securities	266,937
Federal National Mortgage Association	Federal Agency Securities	353,641
U.S. Treasuries	U.S. Treasury Notes & bonds	214,467
Commercial Paper	Unsecured Corporate debt	132,731

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits. The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

All securities owned by the City are deposited in trust for safekeeping with a custodial bank different from the City's primary bank except for one City issued bond and investment in the State's Local Agency Investment Fund.

As of September 30, 2006, the City reports deposits of \$26,811,000 less \$18,043,000 for checks outstanding.

Investment in State Investment Pool

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the City's investment in this pool is reported in the accompanying financial statements at amounts based upon the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

CITY OF LONG BEACH
NOTES TO BASIC FINANCIAL STATEMENTS
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Included in LAIF's investment portfolio are mortgage-backed securities, loans to certain state funds, securities with interest rates that vary according to changes in rates greater than a one-for-one basis, and structured basis.

GASB 31

GASB 31 requires that certain investments and external investment pools be reported at fair value. At September 30, 2006 and 2005, the effect of valuating the City's investments at fair value did not have a material impact on its financial position.

Securities Lending

The City did not engage in any securities lending programs for the fiscal year ended September 30, 2006. However, from time to time, the City engages in limited securities-lending activities. These activities are governed by formal agreements with the City's contract bank. These agreements limit the nature and amount of the transactions, and provide for full collateralization of each transaction.

Component Unit

The Long Beach Transportation Company (LBT) is authorized to participate in the investments listed below, at June 30, 2006. The LBT elected to have all but \$500,000 of its investments with the Local Agency Investment Fund (LAIF). The remaining \$500,000 was invested in an overnight repurchase agreement.

	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Percentage in One Issuer
Local Agency Investment Fund (LAIF)	N/A	None	None
Negotiable Certificates of Deposit	5 years	30%	None
Commercial Paper	270 days	10%	10%
Money Market Mutual Funds	N/A	None	None
Bankers Acceptances	180 days	40%	10%
Repurchase Agreements	90 days	None	None
Reverse Repurchase Agreements	92 days	20%	None
Mutual Funds	N/A	15%	10%
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Obligations	5 years	None	None
Medium-Term Notes	5 years	30%	None
Mortgage Pass-through Securities	5 years	20%	None
Local Agency Bonds	5 years	10%	None

Component Unit Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. As of year end, the weighted average maturity of investments contained in the LAIF investment pool is approximately 133 days.

**CITY OF LONG BEACH
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2006**

Information about the sensitivity of fair values of the LBT's investments to market interest rate fluctuations is provided by the following table that shows the maturity date of each investment at June 30, 2006 (in thousands):

		<u>Maturity Date</u>
State Investment Pool (LAIF)	\$ 32,459	133 days average maturity
Repurchase Agreement (Overnight Sweep Account)	<u>500</u>	July 3, 2006
Total	<u>\$ 32,959</u>	

LBT also has cash on hand and deposits with financial institutions totaling \$555,000 which do not have interest rate risk.

Component Unit Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. LAIF does not have a rating provided by a nationally recognized statistical rating organization.

Component Unit Concentration of Credit Risk

The investment policy of LBT contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There are no investments in any one issuer that represents 5% or more of total LBT investments.

Component Unit Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government code and LBT's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits. The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure government deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial Credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools, such as LAIF.

CITY OF LONG BEACH
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

NOTE 5 – RECEIVABLES

Receivables at September 30, 2006 for the City's individual major funds, and nonmajor and internal service funds in the aggregate, including applicable allowances for uncollectible accounts, are as follows (in thousands). All receivables are expected to be collected within one year, except for delinquent property taxes.

	General	Housing Development	Community Development Grants	General Capital Projects	Redevelopment Capital Projects	Nonmajor Governmental Funds	Internal Service Funds	Total
Governmental Activities:								
Receivables:								
Interest	\$ 21	\$ 10	\$ -	\$ -	\$ 2,601	\$ -	\$ -	\$ 2,632
Taxes	3,452	-	-	-	-	-	-	3,452
Accounts, Unrestricted	24,661	1	-	47	360	3,794	10,096	38,959
Notes and Loans	2,266	-	-	-	-	-	-	2,266
Due from Other								
Governments	16,449	-	2,882	12,385	16	14,665	702	47,099
Total Receivables	46,849	11	2,882	12,432	2,977	18,459	10,798	94,408
Less Allowance for								
Receivables	(20,437)	-	-	-	-	(782)	(329)	(21,548)
Net Receivables	\$ 26,412	\$ 11	\$ 2,882	\$ 12,432	\$ 2,977	\$ 17,677	\$ 10,469	\$ 72,860
Business-Type Activities:								
	Gas	Water	Solid Waste Management	Tidelands	Tideland Oil Revenue	Harbor	Nonmajor Proprietary Funds	Total
Receivables:								
Interest, Unrestricted	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 576	\$ -	\$ 576
Interest, Restricted	-	-	-	247	-	-	35	282
Accounts, Unrestricted	3,684	5,319	9,653	6,926	43,734	47,784	2,428	119,528
Accounts, Restricted	-	-	-	-	-	-	291	291
Capital Lease-current	-	-	-	386	-	-	-	386
Other Receivables	-	-	-	-	-	-	64	64
Due from Other								
Governments	-	-	869	390	2	2,808	2,640	6,709
Total Receivables	3,684	5,319	10,522	7,949	43,736	51,168	5,458	127,836
Less Allowance for								
Receivables	(448)	(214)	(291)	(4,150)	-	(6,020)	(311)	(11,434)
Net Receivables	\$ 3,236	\$ 5,105	\$ 10,231	\$ 3,799	\$ 43,736	\$ 45,148	\$ 5,147	\$ 116,402

CITY OF LONG BEACH
NOTES TO BASIC FINANCIAL STATEMENTS
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NOTE 6 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of September 30, 2006 is as follows (in thousands):

	<u>Payable Fund</u>	<u>Amount</u>
<u>Due to / from Other Funds:</u>		
General	Community Development Grants	\$ 1,806
	Redevelopment Capital Projects	3,325
	Nonmajor Governmental Funds	6,562
	Harbor	100
	Nonmajor Business-type Funds	70
	Internal Service Funds	292
Subtotal General Fund		<u>12,155</u>
Housing Development	Redevelopment Capital Projects	14
General Capital Projects	Community Development Grants	86
Redevelopment Capital Projects	Nonmajor Governmental Funds	303
Gas	Tidelands	698
Water	Harbor	70
Tidelands	Tideland Oil Revenue	1,554
	Harbor	14,402
Subtotal Tidelands		<u>15,956</u>
Harbor	Tideland Oil Revenue	153
Internal Service Funds	General	3,821
	Housing Development	19
	Community Development Grants	101
	General Capital Projects	50
	Redevelopment Capital Projects	31
	Nonmajor Governmental Funds	468
	Gas	180
	Water	250
	Solid Waste Management	120
	Tidelands	243
	Tideland Oil Revenue	56
	Harbor	634
	Nonmajor Business-type Funds	174
	Internal Service Funds	387
Subtotal Internal Service Funds		<u>6,534</u>
Total Due to / from Other Funds		<u>35,969</u>
<u>Advances from / to Other Funds:</u>		
General	Redevelopment Capital Projects	98,924
	Nonmajor Governmental Funds	2,000
Subtotal - General Fund		<u>100,924</u>
Housing Development	Redevelopment Capital Projects	20,800
Community Development Grants	Housing Development	3,819
	Nonmajor Governmental Funds	2,900
Subtotal - Community Development Grants		<u>6,719</u>
General Capital Projects	Redevelopment Capital Projects	1,615
Redevelopment Capital Projects	Tidelands	14,591
Gas	Tidelands	4,946
Harbor	Redevelopment Capital Projects	27,435
Nonmajor Business-type Funds	General Fund	8,114
Total Advances from / to Other Funds		<u>185,144</u>
Total Interfund Balances Entity-Wide		<u>221,113</u>
Less Amounts Eliminated in the Entity-Wide Basis Financial Statements		<u>(216,660)</u>
Entity-Wide Basis Financial Statement Internal Balances		<u>\$ 4,453</u>

**CITY OF LONG BEACH
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2006**

Due To / Due From Other Funds

At September 30, 2006, the Redevelopment Capital Projects Fund owed the General Fund \$3,325,000 for an advance to fund estimated Redevelopment Agency operating costs prior to receiving tax increment revenues. It is intended that this advance will be paid in the next fiscal year as tax increment revenues are received.

The General Fund has advanced cash in the amount of \$4,848,000, \$1,714,000 and \$1,806,000 to the General Grants Fund, Health Fund and Community Development Grants Fund, respectively, to cover operating costs prior to receipt of grant funds from the Homeland Security grants, Health related grants, Federal Government Workforce Investment Act grant, Community Development Block Grant and various other grants.

The General Capital Projects Fund has advanced cash to the Community Development Grants Fund in the amount of \$86,000 to cover operating costs at September 30, 2006. The amount will be repaid in October 2006.

The City, under authority of the City Charter Chapter XII, Section 1209(c)(4), and with the approval of the Board of Harbor Commissioners adopted a resolution to transfer 10%, or \$14,222,000, of the Harbor Fund net income for fiscal year 2005 to the City's Tidelands Fund. This amount is recorded as a due to the Tidelands Fund and due from the Harbor Fund and will be paid quarterly in fiscal year 2007. The Harbor Fund recorded \$180,000 as due to the Tidelands Fund for services rendered.

Employee Benefits overhead costs, such as funding for health benefits and paid time off, relating to the wages and salaries accrued at September 30, 2006 are payable from various funds to the Employee Benefits Internal Service Fund in the amount of \$6,534,000 at September 30, 2006.

Advances from Other Funds

Advances to/from other funds have been recorded for amounts which will be repaid usually with interest over an extended period of time.

From 1974 to 2006, the City provided the Redevelopment Agency (the Agency) with certain Federal grant monies for use on redevelopment projects. The Agency makes discretionary payments to the City annually, which in fiscal year 2005 amounted to approximately \$1,418,000. At September 30, 2006, the outstanding balances of these advances totaled \$98,924,000, \$4,439,000 and \$1,615,000 in the General Fund, Housing Development Fund, and General Capital Projects Fund, respectively, with the latter being for land acquisition and planning and engineering services provided by the City. It is the intent of the City and the Agency that the Agency repay these transfers as future property tax increment revenues permit. Due to the long-term nature of repayment, the City has reserved these interfund receivables in the General Fund, Housing Development Fund and General Capital Projects Fund as fund balance reserved for noncurrent receivables.

The Agency has entered into a financing agreement with the Port of Long Beach (Harbor Fund), under which the Agency was advanced \$30,000,000 for the expansion of the Long Beach Convention and Entertainment Center. A payment of \$1,765,000 was made on the note by the Agency in November 1998. An amendment deferred payments to be made in quarterly installments of \$441,000 over 16 years, beginning in 2002.

**CITY OF LONG BEACH
NOTES TO BASIC FINANCIAL STATEMENTS
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At September 30, 2006 and 2005, the balance of this advance is \$27,435,000. The note is payable solely from transient occupancy taxes levied in the Downtown Redevelopment Project area. The repayment to the Port is subordinated to a pledge to fund payments of the Lease Revenue Refunding Bonds (Aquarium of the Pacific Project) Series 2001 bond issue in the event that the Aquarium revenues do not cover debt service payments. This advance is reported in the Redevelopment Capital Projects Fund and the corresponding receivable is reported in the Harbor Fund.

At September 30, 2006, the Redevelopment Capital Projects Fund advanced \$14,591,000 to the Tidelands Fund. Such monies arose from Downtown Redevelopment area transient occupancy taxes transferred in the amount of \$3,685,000 for fiscal year 2006 and \$10,705,000 for fiscal years 2002 through 2005. The Redevelopment Agency shall be reimbursed for any such advance together with interest, at a rate of interest equal to the rate earned on the City Treasurer's Investment Pool, as monies are available. Interest in the amount of \$67,000 was accrued in fiscal year 2006 and \$134,000 from fiscal years 2002 through 2005. According to the Owner Participation Agreement by and among the Redevelopment Agency of the City of Long Beach, Long Beach Bond Finance Authority and the Aquarium of the Pacific, all Redevelopment Agency Fund transient occupancy taxes are pledged to fund the debt service payments of the Lease Revenue Refunding Bonds (Aquarium of the Pacific Project) Series 2001 if needed.

Community redevelopment law in the State of California requires that 20% of annual net property tax increment revenues be set aside for low- and moderate-income housing. The law allowed a deferral of such set aside under certain circumstances. In December 1995 the Agency adopted a Downtown Project Area Housing Fund Deficit Reduction Plan that called for an analysis of available tax increment and existing obligations beginning in 2010 and every two years thereafter until reduction of the deferred debt is found feasible. The resulting interfund receivable and offsetting non-current receivable reserved fund balance aggregating \$16,361,000 have been recorded as advances to/from other funds in the Housing Development Special Revenue Fund and the Redevelopment Agency Capital Projects Fund, respectively for the Downtown Project Area. For the fiscal year 2006 all seven of the Agency's redevelopment project areas paid their full allocation of the year's required 20% housing set aside.

In fiscal year 2001, the Housing Development Company entered into a \$4,000,000 zero interest loan agreement with the City for the acquisition of twenty-six parcels of land, each containing a four-plex apartment building for affordable rental housing for low and very low-income residents. The Company is required to make the principal payments to the City using 25% of the proceeds from repayments of promissory notes from the developer. Any remaining balance of the promissory note owed on April 1, 2034 shall be immediately due and payable. As of September 30, 2006 the Community Development Grants Fund advanced the Company \$3,819,000 which has been recorded as advances to/from other funds, respectively.

In November 1993, the City issued \$13,490,000 in Gas Utility Bonds (1993 Bonds) with interest rates ranging from 2.6% to 5.125% to construct an energy plant adjacent to the Long Beach Convention and Entertainment Center. This debt was refunded by the Long Beach Bond Finance Authority 2005 Revenue Bonds with interest rates ranging from 2% to 3.125%. This debt is funded by an annual payment from the Tidelands Fund in an amount necessary to cover the debt service requirements with respect to the Gas Utility Bonds.

**CITY OF LONG BEACH
NOTES TO BASIC FINANCIAL STATEMENTS
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The long-term amount due at September 30, 2006 is \$4,946,000. The current amount due at September 30, 2006 is \$698,000.

In July 2004, the Community Development Grants Fund entered into a loan agreement with the Housing Authority Special Revenue Fund in the amount of \$2,900,000 to cover additional housing assistance payments which exceeded U.S. Department of Housing and Urban Development (HUD) funding. This has been recorded as advances to/from the respective funds.

The General Fund advanced the Health Special Revenue Fund \$2 million to cover initial costs associated with the Fund's inception. This debt has no anticipated repayment date.

In fiscal year 2006, the Subsidence non-major business-type fund advanced the General fund \$8,114,000 as a loan payable at \$500,000 per year starting in fiscal year 2007 at zero percent interest. This was allowed under State law passed in fiscal year 2004 to retain interest earned on that reserve for subsidence contingencies for the previous calendar year.

Interfund Transfers

The City regularly transfers current financial resources from one fund to another. At September 30, 2006 interfund transfers are as follows (in thousands):

		Transfers To:							
	General	Housing Development	Community Development Grants	General Capital Projects	Redevelopment Capital Projects	Nonmajor Governmental Funds	Tidelands	Internal Service Funds	Total Transfers Out
Transfers Out of:									
General	\$ -	\$ -	\$ 185	\$ 5,529	\$ -	\$ 2,028	\$ -	\$ -	\$ 7,742
Housing Development	-	-	12	-	5,741	-	-	-	5,753
Community Development Grants	30	1,335	-	1,411	-	99	-	-	2,875
General Capital Projects	-	-	-	-	-	325	-	-	325
Redevelopment Capital Projects	-	14	-	2,928	-	-	4,220	-	7,162
Nonmajor Governmental	13,321	-	-	1,703	-	-	984	484	16,492
Gas	17,002	-	-	-	-	-	-	-	17,002
Solid Waste Management	1,258	-	-	-	-	-	-	-	1,258
Tideland Oil Revenue	-	-	-	-	-	-	18,163	-	18,163
Harbor	-	-	-	-	-	-	14,222	-	14,222
Internal Service Funds	2,979	-	-	-	-	-	-	-	2,979
Total Transfers In	<u>\$ 34,590</u>	<u>\$ 1,349</u>	<u>\$ 197</u>	<u>\$ 11,571</u>	<u>\$ 5,741</u>	<u>\$ 2,452</u>	<u>\$ 37,589</u>	<u>\$ 484</u>	<u>\$ 93,973</u>

The significant transfers include:

The General Fund transferred \$5,529,000 to the General Capital Projects Fund for ongoing projects such as City street and sidewalk construction, and City building improvements, maintenance and repairs. The Upland Oil Fund and Park Development Fund, included as non-major governmental funds, transferred \$690,000 and \$1,013,000, respectively, to the Capital Projects Fund for ongoing City park projects and other capital projects.

The General Fund transferred \$185,000 to the Community Development Grants Fund to provide a City-match to the Workforce Investment Act grant.

**CITY OF LONG BEACH
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The General Fund transferred \$699,000 to the General Grants Fund, included as a non-major governmental fund, as a City match for various federal and county grants.

The General Fund transferred \$1,329,000 to the Health Fund, included as a non-major governmental fund, to cover Health Fund indirect cost allocation charges incurred.

The Upland Oil Fund, included as a non-major governmental fund, transferred \$13,321,000 to the General Fund for royalties due the City.

The Community Development Grants Fund transferred \$1,411,000 to the General Capital Projects Fund for ongoing Americans with Disabilities Act modifications and projects.

The Community Development Grants Fund transferred \$1,335,000 to the Housing Development Fund pursuant to a sub-recipient agreement between the City and the Long Beach Housing Development Company. Under the agreement HUD has designated the City as a participating jurisdiction to receive an annual allocation of funds to facilitate the development of affordable rental housing and homeownership affordability through the acquisition, new construction, reconstruction, or moderate or substantial rehabilitation of affordable housing and to provide tenant-based rental assistance.

The Community Development Grants Fund transferred \$99,000 to the Business Assistance Fund, included as a non-major governmental fund, to provide a City-match to the Economic Development Administration (EDA) grant.

The Housing Development Fund transferred \$2,330,000 to the Redevelopment Agency Capital Projects Fund to provide funding of the Central project area (Atlantic Phase III and IV), that provides affordable residential units. Also, the Housing Development Fund transferred \$3,411,000 to the Redevelopment Agency Capital Projects Fund for payment of bond principal and interest payments related to Redevelopment Agency Housing Bonds.

The Redevelopment Capital Projects Fund transferred \$535,000 to the Tidelands Fund to partially fund the Convention Center energy plant, along with \$3,685,000 from transient occupancy taxes to partially fund the Aquarium of the Pacific debt.

The Redevelopment Capital Projects transferred \$2,928,000 to the General Capital Projects Fund for Central and North development projects.

The Gas Fund transferred \$17,002,000 to the General Fund as allowed by City charter.

The Solid Waste Management Fund transferred \$1,258,000 to the General Fund based on a Joint Powers Agreement between the City and the Los Angeles County Sanitation District Number 2 (District). Under the agreement, net remaining retained earnings over a required amount as stipulated in the agreement can be distributed equally between the District and the City.

The Harbor Fund accrued an operating transfer of \$14,222,000 due to the Tidelands Fund as allowed by the City Charter.

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The Tidelands Oil Revenue Fund shares revenue from the tidelands oil operation under an optimized water flood program. In fiscal year 2006, \$18,163,000 was transferred to the Tidelands Fund from the Tidelands Oil Revenue Fund under this program.

Internal Service Fund transfers reflect cable franchise fee revenue from the General Services Internal Service Fund to the General Fund in the amount of \$2,979,000.

The Special Advertising and Promotion Fund, included as a non-major governmental fund, transferred \$984,000 of Convention Center \$1.00 parking surcharge to the Tidelands Fund. Future parking surcharge revenue will post directly to the Tidelands Fund, as it is restricted for use in the Tidelands area.

The Transportation Fund, included as a non-major governmental fund, transferred \$484,000 to the Internal Service Fleet Services Fund for the existing liquefied natural gas fueling station.

NOTE 7 – CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2006 is as follows (in thousands):

<u>Governmental Activities:</u>	<u>Balance at October 1, 2005</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance at September 30, 2006</u>
Capital Assets not being Depreciated:				
Land	\$ 116,026	\$ 58	\$ (162)	\$ 115,922
Rights-of-way	2,806	78,505	-	81,311
Construction In Progress	76,710	35,591	(15,477)	96,824
Total Capital Assets not being Depreciated	<u>195,542</u>	<u>114,154</u>	<u>(15,639)</u>	<u>294,057</u>
Capital Assets being Depreciated:				
Buildings	237,018	4,782	(160)	241,640
Improvements Other than Buildings	54,360	3,591	-	57,951
Infrastructure	342,314	10,053	(1,093)	351,274
Machinery and Equipment	60,245	6,592	(302)	66,535
Automotive	81,455	9,127	(7,208)	83,374
Other Assets	30,719	-	-	30,719
Total Capital Assets being Depreciated	<u>806,111</u>	<u>34,145</u>	<u>(8,763)</u>	<u>831,493</u>
Less Accumulated Depreciation for:				
Buildings	(65,946)	(7,332)	66	(73,212)
Improvements Other than Buildings	(19,543)	(2,500)	-	(22,043)
Infrastructure	(178,678)	(10,921)	1,093	(188,506)
Machinery and Equipment	(41,130)	(7,847)	247	(48,730)
Automotive	(45,261)	(6,753)	6,982	(45,032)
Other Assets	(25,040)	(1,420)	-	(26,460)
Total Accumulated Depreciation	<u>(375,598)</u>	<u>(36,773)</u>	<u>8,388</u>	<u>(403,983)</u>
Total Capital Assets being Depreciated, Net	<u>430,513</u>	<u>(2,628)</u>	<u>(375)</u>	<u>427,510</u>
Governmental Activities Capital Assets, Net	<u>\$ 626,055</u>	<u>\$ 111,526</u>	<u>\$ (16,014)</u>	<u>\$ 721,567</u>

CITY OF LONG BEACH
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Depreciation has been charged to functions/programs of governmental activities as follows (in thousands):

Legislative and Legal	\$ 137
General Government	335
Public Safety	6,898
Public Health	291
Community and Cultural	5,413
Public Works	11,539
Capital Assets held by City's internal services funds allocated to various functions on a prorated basis based on their usage of the assets	12,160
Total governmental activities depreciation	<u>\$ 36,773</u>

Capital asset activity for business-type activities for the year ended September 30, 2006 is as follows (in thousands):

Business-type Activities:	Balance at October 1, 2005	Increase	Decrease	Balance at September 30, 2006
Capital Assets not being Depreciated:				
Land	\$ 898,540	\$ 64,080	\$ (51,988)	\$ 910,632
Rights-of-way	207,823	1,848	-	209,671
Construction In Progress	188,092	150,317	(119,685)	218,724
Total Capital Assets not being Depreciated	<u>1,294,455</u>	<u>216,245</u>	<u>(171,673)</u>	<u>1,339,027</u>
Capital Assets being Depreciated:				
Buildings	1,950,218	25,292	(12,173)	1,963,337
Improvements Other than Buildings	278,806	13,714	7,209	299,729
Infrastructure	939,508	14,943	(3,465)	950,986
Machinery and Equipment	22,301	1,200	(412)	23,089
Automotive	23,052	4,849	(3,038)	24,863
Total Capital Assets being Depreciated	<u>3,213,885</u>	<u>59,998</u>	<u>(11,879)</u>	<u>3,262,004</u>
Less Accumulated Depreciation for:				
Buildings	(750,118)	(93,592)	6,271	(837,439)
Improvements Other than Buildings	(132,357)	(7,644)	-	(140,001)
Infrastructure	(515,315)	(12,888)	2,768	(525,435)
Machinery and Equipment	(16,867)	(1,029)	782	(17,114)
Automotive	(18,127)	(1,834)	623	(19,338)
Total Accumulated Depreciation	<u>(1,432,784)</u>	<u>(116,987)</u>	<u>10,444</u>	<u>(1,539,327)</u>
Total Capital Assets being Depreciated, Net	<u>1,781,101</u>	<u>(56,989)</u>	<u>(1,435)</u>	<u>1,722,677</u>
Business-type Activities Capital Assets, Net	<u>\$ 3,075,556</u>	<u>\$ 159,256</u>	<u>\$ (173,108)</u>	<u>\$ 3,061,704</u>

CITY OF LONG BEACH
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Depreciation has been charged to functions/programs of business-type activities as follows (in thousands):

Gas	\$	3,242
Water		7,922
Sewer		1,233
Airport		3,737
Solid Waste Management		4,474
Towing		9
Tidelands		15,729
Harbor		80,678
Total business-type activities depreciation	\$	<u>117,024</u>

Capitalized Interest

There was no capitalized interest in fiscal years 2006 and 2005.

Component Unit

Capital asset activity of the LBT for the year ended June 30, 2006 was as follows (in thousands):

	Balance at July 1, 2005	Increases	Decreases	Balance at June 30, 2006
Capital Assets not being Depreciated:				
Land	\$ 5,525	\$ -	\$ -	\$ 5,525
Construction in Progress	1,013	966	(537)	1,442
Total Capital Assets not being Depreciated	<u>6,538</u>	<u>966</u>	<u>(537)</u>	<u>6,967</u>
Capital Assets being Depreciated:				
Buildings and Improvements	31,232	639	-	31,871
Fleet	103,686	4,220	(12,726)	95,180
Communications Systems	6,186	392	-	6,578
Fare Collection System	1,914	4,004	(864)	5,054
Office, Shop and Garage Equipment	14,547	954	(118)	15,383
Passenger Facilities	5,070	1,334	(135)	6,269
Total Capital Assets being Depreciated:	<u>162,635</u>	<u>11,543</u>	<u>(13,843)</u>	<u>160,335</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	(15,831)	(1,626)	-	(17,457)
Fleet	(46,666)	(10,780)	12,726	(44,720)
Communications Systems	(2,539)	(1,579)	-	(4,118)
Fare Collection System	(1,542)	(171)	864	(849)
Office, Shop and Garage Equipment	(12,655)	(861)	118	(13,398)
Passenger Facilities	(2,006)	(1,301)	135	(3,172)
Total Accumulated Depreciation	<u>(81,239)</u>	<u>(16,318)</u>	<u>13,843</u>	<u>(83,714)</u>
Total Capital Assets being Depreciated, Net	<u>81,396</u>	<u>(4,775)</u>	<u>-</u>	<u>76,621</u>
Total LBT Capital Assets, Net	<u>\$ 87,934</u>	<u>\$ (3,809)</u>	<u>\$ (537)</u>	<u>\$ 83,588</u>

CITY OF LONG BEACH
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

NOTE 8 – CHANGE IN LONG – TERM LIABILITIES

Long-term liability activity for the year ended September 30, 2006, was as follows (in thousands):

	Balance at October 1, 2005	Additions	Reductions	Balance at September 30, 2006	Due Within One Year
<u>Governmental Activities:</u>					
Bonds Payable					
Revenue Bonds	\$ 242,685	\$ -	\$ (11,215)	\$ 231,470	\$ 9,290
Tax Allocation Bonds	355,444	35,045	(41,863)	348,626	7,812
Plus (less) deferred amounts:					
Premium	8,771	2,455	(836)	10,390	-
Discount	(2,476)	(230)	125	(2,581)	-
Refunding	(10,781)	(2,507)	1,970	(11,318)	-
Issuance costs	(11,713)	(1,316)	1,594	(11,435)	-
Total Bonds Payable	581,930	33,447	(50,225)	565,152	17,102
Notes Payable	11,971	285	(1,110)	11,146	215
Capital Leases	31,957	10,318	(7,144)	35,131	7,153
Police and Fire Annuities	32,962	1,523	(4,589)	29,896	-
Estimated Oil Field Abandonment Costs	5,000	100	-	5,100	-
Accrued Self-Insured Claims	134,112	7,841	(37,163)	104,790	19,010
Employee Benefits	69,476	7,046	(5,966)	70,556	6,200
Governmental Activities Long-Term Liabilities	<u>\$ 867,408</u>	<u>\$ 60,560</u>	<u>\$ (106,197)</u>	<u>\$ 821,771</u>	<u>\$ 49,680</u>
<u>Business-Type Activities:</u>					
Bonds Payable					
Revenue Bonds	\$ 1,409,610	\$ 50,785	\$ (92,755)	\$ 1,367,640	\$ 55,055
Plus (less) deferred amounts:					
Premium	55,796	122	(3,362)	52,556	-
Discount	(1,861)	(8)	474	(1,395)	-
Refunding	(26,930)	(3,514)	2,963	(27,481)	-
Issuance Cost	(19,073)	(716)	1,810	(17,979)	-
Total Bonds Payable	1,417,542	46,669	(90,870)	1,373,341	55,055
Certificates of Participation	15,025	-	(5,065)	9,960	785
Discount	(262)	-	83	(179)	-
Refunding	(652)	-	86	(566)	-
Issuance costs	(364)	-	184	(180)	-
Total Certificates of Participation	13,747	-	(4,712)	9,035	785
Notes Payable	82,167	24,370	(1,579)	104,958	1,578
Issuance costs	(351)	-	58	(293)	-
Total Notes Payable	81,816	24,370	(1,521)	104,665	1,578
Capital Leases	7,572	650	(2,103)	6,119	2,331
Due to State of California	105,983	153,107	(253,010)	6,080	5,470
Estimated Oil Field Abandonment Costs	328,700	14,400	-	343,100	-
Business-Type Activities Long-Term Liabilities	<u>\$ 1,955,360</u>	<u>\$ 239,196</u>	<u>\$ (352,216)</u>	<u>\$ 1,842,340</u>	<u>\$ 65,219</u>

CITY OF LONG BEACH
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

NOTE 9 – BONDS PAYABLE

At September 30, 2006 bonded indebtedness consisted of the following (in thousands):

Description	Date Issued	Final Maturity	Range of Interest Rates*	Authorized and Issued	Outstanding at September 30, 2006
<u>GOVERNMENTAL ACTIVITIES</u>					
GENERAL CITY BONDS					
Long Beach Museum of Art Project	10/15/99	09/01/09	Variable	\$ 3,060	\$ 3,060
Belmont Shore Parking Meter	06/30/93	06/01/12	5.75%	1,680	1,025
Skylinks Golf	05/01/03	05/01/29	1.57%-6.3%	6,890	6,350
Parking Plaza Bonds	06/14/01	11/01/27	4.4%-5.375%	11,500	10,740
Public Safety Facility	03/01/02	11/01/31	3.0%-5.25%	40,915	40,105
Towne Center Site Refinancing	11/01/04	11/01/30	Variable	11,595	11,295
Total General City Bonds				<u>75,640</u>	<u>72,575</u>
REDEVELOPMENT BONDS					
Tax Allocation Bonds:					
1992 Multiple Series -					
Downtown Project Refunding	12/01/92	11/01/17	2.9% - 6.0%	81,020	36,475
West Long Beach Industrial	12/01/92	11/01/17	2.9% - 6.0%	36,470	16,425
2005A & B Central	03/02/05	08/01/40	3.52% - 5.34%	56,930	56,265
2005A Los Altos	03/02/05	08/01/20	2.2% - 4.0%	4,685	4,430
2005A & B North Long Beach	03/02/05	08/01/35	3.52% - 5.16%	64,080	63,050
2005A Poly High	03/02/05	08/01/24	3.79% - 4.9%	2,558	2,558
2005A West Beach	03/02/05	08/01/20	4.59% - 4.66%	840	840
2005B Housing	03/02/05	08/01/40	3.52% - 5.44%	55,665	55,020
2002B West Long Beach Industrial Project	12/05/02	11/01/24	2.0% - 5.5%	21,860	19,660
2002B Downtown	12/05/02	11/01/22	2.25% - 5.5%	25,920	22,615
2002A West Beach	06/25/02	08/01/18	5.15%	8,895	7,322
2002A Downtown Project	06/25/02	08/01/24	5.25% - 7.1%	26,820	16,651
2002A North Long Beach	06/25/02	08/01/31	6.10%	40,290	11,170
2002A Poly High	06/25/02	08/01/12	4.81%	1,710	1,120
2005C Downtown Project	02/01/06	08/01/24	3.25-5.50%	7,900	7,880
2005C North Long Beach Project	02/01/06	08/01/31	3.70-5.50%	27,145	27,145
Total Redevelopment Bonds				<u>462,788</u>	<u>348,626</u>
INTERNAL SERVICE BONDS					
Civic Center Fund:					
1997 Civic Center Project Series A	12/01/97	10/01/27	4.0% - 5.0%	43,655	36,385
Fleet Services:					
1998 Temple and Willow Facility Series B	05/01/98	10/01/27	4.5%-5.5%	29,565	25,215
2005 Temple and Willow Facility Series A	05/01/05	05/01/28	2.75-4.5%	8,145	7,830
Total Fleet Services				<u>37,710</u>	<u>33,045</u>
Employee Benefits Fund:					
Pension Obligation Refunding Bonds Series 2002	09/01/02	09/01/21	4.73% - 5.18%	87,950	73,250
Pension Obligation Bonds Series 1995	10/01/95	09/01/11	5.9% - 7.24%	108,635	16,215
Total Employee Benefits				<u>196,585</u>	<u>89,465</u>
Total Internal Service Funds				<u>277,950</u>	<u>158,895</u>
Total Governmental Activities Bonds Payable				<u>816,378</u>	<u>580,096</u>
<u>BUSINESS-TYPE ACTIVITIES:</u>					
ENTERPRISE BONDS					
Gas Fund:					
2005 Gas Utility	08/01/05	08/01/13	2.0% - 4.39%	7,675	6,500
Water Fund:					
1997A Water	10/01/97	05/01/24	4.0% - 5.75%	46,945	34,675
Solid Waste Management Fund:					
2003 SERRF	12/01/03	12/01/18	2.0%-5.375%	120,235	107,695
Tidelands Fund:					
Aquarium of the Pacific	05/03/01	11/01/30	3.875%-5.5%	129,520	129,520
1994 Marina Subordinate Revenue Bond	04/01/94	04/01/09	6.25%	1,310	370
1995 Marina Refunding Revenue Bond	11/01/95	01/15/08	3.85% - 5.15%	31,725	6,280
2006 Rainbow Harbor Refinancing	04/04/06	05/01/24	3.75%-5.00%	50,785	50,785
Total Tidelands Fund				<u>213,340</u>	<u>186,955</u>
Harbor Fund:					
1998 Harbor	02/01/98	05/15/19	5.25%-9.0%	206,330	155,865
2000 Harbor	05/15/01	05/15/25	5%-5.75%	275,000	248,085
2002 Harbor	06/19/02	05/15/25	Variable	300,000	274,565
2004 Harbor	05/15/04	05/15/18	2.5-5.0%	113,410	101,525
2005 Harbor	05/15/05	05/15/25	3.0-5.0%	257,975	251,775
Total Harbor Fund				<u>1,152,715</u>	<u>1,031,815</u>
Total Business-Type Activities Bonds Payable				<u>1,540,910</u>	<u>1,367,640</u>
Total Primary Government Bonded Indebtedness				<u>\$ 2,357,288</u>	<u>\$ 1,947,736</u>

* Interest on all bonded indebtedness is payable semi-annually, except the Long Beach Museum of Art Project, 2002 Harbor Bonds and Towne Center Site Refinancing Bonds which are paid monthly.

CITY OF LONG BEACH
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Debt service payments to maturity for governmental activities bonds are as follows (in thousands):

Year-End	Principal Payments - Governmental Activities										Total Annual Debt Service Requirements		
	Museum of Art Project	Belmont Shore Parking Revenue	Skylinks Golf	Parking Plaza	Public Safety Facility	Towne Center Refinance	Redevelopment Capital Projects	Civic Center	Fleet	Employee Benefits	Principal	Interest	Total
2007	\$ -	\$ 155	\$ 145	\$ 280	\$ 835	\$ 165	\$ 7,812	\$ 1,015	\$ 865	\$ 5,830	\$ 17,102	\$ 29,917	\$ 47,019
2008	-	165	150	290	860	180	8,252	1,060	900	6,360	18,217	29,050	47,267
2009	3,060	175	160	305	885	190	8,672	1,110	945	6,935	22,437	28,108	50,545
2010	-	185	165	320	910	205	9,130	1,165	980	7,565	20,625	26,976	47,601
2011	-	195	175	335	945	220	9,593	1,225	1,025	8,255	21,968	25,867	47,835
2012 - 2016	-	150	1,010	1,930	5,430	1,380	56,797	7,140	5,925	23,860	103,622	113,085	216,707
2017 - 2021	-	-	1,350	2,500	6,995	1,980	70,713	9,170	7,605	30,660	130,973	83,336	214,309
2022 - 2026	-	-	1,810	3,230	9,035	2,865	67,118	11,770	9,620	-	105,448	50,681	156,129
2027 - 2031	-	-	1,385	1,550	11,545	4,110	46,309	2,730	5,180	-	72,809	27,645	100,454
2032 - 2036	-	-	-	-	2,665	-	39,420	-	-	-	42,085	12,406	54,491
2037 - 2041	-	-	-	-	-	-	24,810	-	-	-	24,810	3,320	28,130
Totals	\$ 3,060	\$ 1,025	\$ 6,350	\$ 10,740	\$ 40,105	\$ 11,295	\$ 348,626	\$ 36,385	\$ 33,045	\$ 89,465	\$ 580,096	\$ 430,391	\$ 1,010,487

The Long Beach Museum of Art Project principal of \$3,060,000 is due September 1, 2009. Interest is payable monthly at variable interest rates. Rates for fiscal year 2006 ranged from 2.53% to 3.78%. For purposes of illustration a fixed rate of 3.56% has been used in the table above.

In August 2003, the City issued \$6,890,000 in Long Beach Bond Finance Authority Lease Revenue bonds, Skylinks Golf Course Project, Series 2003. The bonds were issued to finance improvements to the Skylinks Golf Course, a municipal golf course owned by the City, to fund a reserve account and to pay certain costs of issuance on the Series 2003 bonds. Interest rates range from 1.57% to 6.30%.

In January 2004 the City issued \$11,595,000 in Long Beach Towne Center Site Refinancing Project Taxable Variable Rate Demand Revenue Bonds, 2004 Series A. The bonds were issued to prepay a note issued by the U.S. Department of the Navy, the proceeds of which were used to acquire a parcel of real property located in the City of Long Beach, which, with two adjacent parcels, was developed by the City into a retail/entertainment complex known as the Long Beach Towne Center, and to pay certain costs of issuance of the bonds. Interest rates for fiscal year 2006 ranged from 3.66% to 5.47%. For the purpose of illustration, a fixed rate of 5.47% has been used in the table above.

In February 2005, the City issued \$192,433,000 in Long Beach Bond Finance Authority Bonds 2005 Series A Revenue Bonds and Series B Taxable Revenue Bonds. The bonds were issued to provide funds to finance certain redevelopment projects of the Redevelopment Agency (Agency), to finance certain housing projects of the Housing Authority, refinance certain indebtedness of the Agency, and to fund reserve accounts and pay costs of issuance of the Series 2005 Bonds. The interest rates range from 2.0% to 5.44%. Current refunding and defeasement of the refunded 1993 Gas Utility Bonds was included in this issue. The Series 2005 bonds for the Gas Utility Refunding in the amount of \$7,675,000 are payable through August 1, 2013 with a total debt service of \$8,678,000 with interest rates ranging from 2.0% to 3.125%. The refunding issue resulted in an accounting gain of approximately \$50,000 which will be recognized over the life of the bonds. Aggregate debt service decreased by \$908,000, thereby resulting in an economic gain of approximately \$474,000.

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In December 2005, the City remarketed the City of Long Beach, California Taxable Pension Obligation Refunding Bonds, Series 2002A and Series 2002B. The Series 2002A Bonds in the aggregate principal amount of \$38,300,000 and the Series 2002B Bonds in the aggregate principal amount of \$38,250,000 were remarketed on December 30, 2005 in connection with the conversion of such Series 2002A Bonds and Series 2002B Bonds from bearing interest at auction rates to bearing interest at fixed interest rates to maturity. Additionally, on December 30, 2005, \$1,200,000 aggregate principal amount of the Series 2002A Bonds and \$1,200,000 aggregate principal amount of the Series 2002B Bonds (which were not being remarketed) were redeemed by the City. The interest rates range from 4.73% to 5.18%.

Annual principal payment requirements to maturity for business-type activities revenue bonds and the funds from which payments will be made are as follows (in thousands):

Year-End	Principal Payments by Fund – Business-Type Activities					Total Annual Debt Service Requirements		
	Gas	Water	Solid Waste Management	Tidelands	Harbor	Principal	Interest	Total
2007	\$ 905	\$ 1,210	\$ 6,540	\$ 8,065	\$ 38,335	\$ 55,055	\$ 66,765	\$ 121,820
2008	925	1,265	6,690	8,390	40,090	57,360	64,309	121,669
2009	940	1,330	6,860	5,445	42,150	56,725	61,810	118,535
2010	970	1,405	7,050	5,515	44,355	59,295	59,207	118,502
2011	990	1,480	7,305	5,740	46,715	62,230	56,384	118,614
2012 - 2016	1,770	8,655	42,230	32,710	266,330	351,695	231,388	583,083
2017 - 2021	-	11,185	31,020	39,385	294,200	375,790	132,777	508,567
2022 - 2026	-	8,145	-	41,610	239,015	288,770	51,633	340,403
2027 - 2031	-	-	-	40,095	20,625	60,720	6,313	67,033
Totals	<u>\$6,500</u>	<u>\$34,675</u>	<u>\$ 107,695</u>	<u>\$186,955</u>	<u>\$1,031,815</u>	<u>\$1,367,640</u>	<u>\$ 730,586</u>	<u>\$2,098,226</u>

The Harbor 2002 Series A Bonds interest rate through May 14, 2004 was 4%. At the end of the initial long-term interest rate period the Series A bonds converted to a variable rate. The initial variable rate was 1.15% and the average variable rate was 3.25% through September 30, 2006. Harbor 2002 Series B Bonds interest rates range from 3.00% to 5.50%. Harbor 2002 Bonds debt service requirements to maturity for the purpose of illustration are based on 4% in the table above.

Advance Refundings

During the fiscal year ended September 30, 2006, the City advance refunded debt issues in order to take advantage of declining interest rates, to provide additional capital for related projects and/or to extend the term of the bonds.

In November 2002, the Redevelopment Agency (Agency) of the City of Long Beach issued \$47,780,000 in Long Beach Bond Finance Authority Tax Allocation Revenue Bonds Downtown and West Long Beach Industrial Redevelopment Project Areas 2002 Series B bonds (Series B bonds). These 2002 Series B bonds were issued to current refund \$25,670,000 of the outstanding Series 1992A Downtown and West Long Beach Industrial Bonds with interest rates ranging from 2.9% to 6.0%, to repay certain amounts owed by the Agency to the Port of Long Beach, to make a deposit to the reserve account and to pay certain issuance costs for the 2002 Series B bonds. The 2002 Series B interest rates range from 2.0% to 5.5% for the West Long Beach Industrial Project and 2.25% to 5.5% for Downtown Project.

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In January 2006, the Redevelopment Agency (Agency) of the City of Long Beach issued \$35,045,000 in Long Beach Bond Finance Authority Tax Allocation Revenue Bonds Downtown and North Long Beach Redevelopment Project Areas 2005 Series C bonds (Series C bonds). These 2005 Series C bonds were issued to purchase a portion of the outstanding Redevelopment Agency of the City of Long Beach 2002 Subordinate Tax Allocation Bonds (Downtown Redevelopment Project) and the outstanding Redevelopment Agency of the City of Long Beach 2002 Tax Allocation bonds (North Long Beach Redevelopment Project) in order to advance refund a portion of the outstanding Long Beach Bond Finance Authority Tax Allocation Revenue Bonds (Downtown, North Long Beach, Poly High and West Beach Redevelopment Project Areas) 2002 Series A and to finance certain redevelopment projects within or of benefit to the Downtown Project Area. The interest rates for the Series C bonds range from 3.25% to 5.50%.

In August 2005, the Long Beach Financing Authority issued \$8,145,000 in Lease Revenue Bonds 2005 Series A (Temple and Willow Facility Refinancing Project) to refinance the cost of a new fleet services, towing and lien sales operations and integrated resource operations facility, purchase a reserve surety bond and pay costs of issuance on the bonds. The 2005 Series A bonds are payable through May 1, 2028 with a total debt service in the amount of \$12,959,000. The interest rates range from 2.75% to 4.50%. The refunding resulted in an accounting loss of \$598,000 which will be recognized over the life of the bonds. Aggregate debt service decreased by \$316,000, thereby resulting in an economic gain of \$333,000.

Southeast Resource Recovery Facility Authority Bond Issue

The Southeast Resource Recovery Facility Authority (Authority) issued \$120,235,000 in lease revenue bonds Series A and Series B in October 2003 (Series 2003) to current refund the Authority's Lease Revenue Refunding Bonds, Series 1995A and Series 1995B (Series 1995), finance certain public improvement projects in the City, fund a reserve fund for the Series 2003 Bonds and pay certain costs of issuance. The Series 2003 bonds are payable through December 1, 2018 with a total debt service in the amount of \$170 million. The 2003 Bonds have interest rates ranging from 2.0% through 5.375%. The refunding issue resulted in an accounting loss of approximately \$2,109,000, which will be recognized over the life of the bonds. Aggregate debt service increased by approximately \$4.9 million over the next fifteen years to level overall debt service requirements, thereby resulting in an economic loss of approximately \$6.4 million.

Tidelands Rainbow Harbor Refunding Bonds

In March 2006, the Long Beach Bond Finance Authority issued \$50,785,000 in Lease Revenue Bonds 2006 Series A (Rainbow Harbor Refinancing Project) (2006 Series A) to refinance costs of improvements in the Rainbow Harbor area of the City of Long Beach including the refunding of the Long Beach Bond Finance Authority Lease Revenue Bonds (Rainbow Harbor Refinancing Project) 1999 Series A, to refinance the costs of a portion of the 1,471 parking garage at 200 Shoreline Drive including the refunding of the 1997 Certificates of Participation (Queensway Bay Parking Facility), and to fund a reserve fund and pay costs of issuance for the bonds. The 2006 Series A bonds are payable through May 1, 2024 with total debt service in the amount of \$73,235,000. The interest rates range from 3.375% to 5.00%. The refunding resulted in an accounting loss of \$3,514,000 which will be recognized over the life of the bonds. Aggregate debt service decreased by \$2,184,000, thereby resulting in an economic gain of \$1,497,000.

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Harbor Revenue Refunding Bonds

In March 2004, the City issued the City of Long Beach Harbor Revenue Refunding Bonds 2004 Series A and Series B bonds amounting to \$113,410,000 to current refund and defease all of the City's Harbor Revenue Bonds Series 1993, pay a bond insurance premium, fund a reserve fund, and to pay certain costs of issuance. The current refunding resulted in a difference between the reacquisition price and net carrying amount on the old debt of \$1,446,000. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is amortized using the straight-line method over the life of the bonds. Aggregate debt service decreased by approximately \$13.9 million, thereby resulting in an economic gain of approximately \$9.7 million.

In March 2005, the City issued the City of Long Beach Harbor Revenue Refunding Bonds Series 2005A & B (the 2005 Bonds), amounting to \$257,975,000 to current refund and to defease all of the City's Harbor Revenue Bonds Series 1995, to pay the premium for the Bond Insurance Policies, to fund a reserve for the Series 2005 Bonds, and to finance the costs of issuance of the Series 2005 Bonds. The current refunding resulted in a difference between the reacquisition price and net carrying amount on the old debt of \$4,214,000 which will be recognized over the life of the bonds. The aggregate debt service decreased by \$84,664,000 thereby resulting in an economic gain of approximately \$24,178,000.

In addition to the above advance refunding issue, the City previously advance refunded several other outstanding bond issues. Each of the refunding transactions resulted in an overall economic gain to the City by providing for a substantial savings in cash flow requirements to service the outstanding debts. For financial reporting purposes, however, such refunding transactions generally result in accounting losses. In accordance with generally accepted accounting principles in effect at the time of each transaction, such accounting losses were recognized by the City in the year of refunding and the corresponding economic gains are recognized by the City as they occur.

The proceeds from the City's refunding issues have been placed in irrevocable escrow accounts overseen by independent bank fiscal agents. Such proceeds have been generally invested in U.S. Treasury Securities, which together with interest earned thereon are intended to provide amounts sufficient for future payment of interest, principal and redemption premium on the refunded bonds. The refunded bonds have not been included as City outstanding long-term debt since the City's obligation thereon was satisfied by establishing the irrevocable trusts.

As of September 30, 2006, the total amount of the defeased debt outstanding and removed from the City's funds and account groups aggregated \$155,338,000.

Special Assessment Debt

The City serves as the facilitating agent for a number of no-obligation special assessment debt issues. Funding from these issues has been used to improve streets and other City infrastructure, as well as assisting City residents and businesses with the cost of major structural repairs and installation of seismic resistant improvements to their properties. The City has no obligation to service the debt on these special assessment

**CITY OF LONG BEACH
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issues; therefore, no liability has been recorded in the City's books for the special assessment debt.

The proceeds from special assessment debt issued for City infrastructure improvements are usually accounted for in the General Capital Projects Fund. The proceeds from special assessment debt issued for the Pike Public Improvements are accounted for in the Tidelands Fund. Special assessment revenues to repay the debt issues are being accounted for in Agency Funds.

At September 30, 2006, aggregate special assessment debt issued through the City consisted of six issues, summarized as follows:

- | | |
|--|----------------------------|
| • Dates Issued: | 8/16/93 – 7/19/05 |
| • Final Maturities: | 10/01/13 – 10/01/32 |
| • Range of Interest Rates: | 2.625% – 9.75% |
| • Amounts Authorized and Issued: | \$3,000,000 – \$43,000,000 |
| • Range of Amounts Outstanding: | \$415,000 – \$42,290,000 |
| • Aggregate Outstanding at September 30, 2006: | \$77,630,000 |

Pike Public Improvements

In June 2002, the City of Long Beach Community Facilities District No. 6 2002 Special Tax Bonds (Pike Public Improvement Bonds) were issued in the amount of \$43,000,000 under the provisions of the Mello-Roos Community Facilities Act of 1982. The Pike Public Improvement Bonds were issued to finance a portion of the costs of the acquisition, construction, installation and equipping of various public capital improvements in the Pike Development Project adjacent to downtown Long Beach. A substantial portion of the proceeds were applied to finance the cost of a parking structure. The bonds do not constitute a debt of the City, therefore, no liability has been recorded in the City's books. The debt is payable from special tax revenues levied on the property within the district, except as described in Note 22.

Earthquake Assessment

In 1990, the City, acting on behalf of certain property owners, formed the Earthquake Repair Assessment District 90-3 (District). In June 1991, the District issued \$17,440,000 of City of Long Beach Earthquake Repair Assessment District No. 90-3 Limited Obligation Improvement Bonds (Bonds) for the construction and installation of seismic resistance improvements to eligible commercial and residential properties within the City. The principal and interest was to be paid from the annual collection of special assessments on property within the District. As of September 30, 1996, \$10,130,000 in bonds were outstanding. In September 1996, the Bond's Fiscal Agent determined that there were insufficient funds to make full payment of principal and interest due to significant delinquencies in payment of assessments. Under the provisions of the bond covenants, the City is required to commence judicial foreclosure proceedings upon delinquent assessments and to diligently pursue such foreclosure proceedings to completion. To date, the City has fulfilled its responsibility and will continue such action to ultimate resolution.

To structure a remedy for the default, the City formed the Long Beach Bond Financing Authority (LBBFA). The LBBFA divided District properties into performing and delinquent

CITY OF LONG BEACH
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pools. The assessment revenue from each pool was then used as collateral for new LBBFA bonds sold in July 1997. Series A bonds (Series A) and Series B bonds (Series B) represent the performing pool and the delinquent pool, respectively. A breakdown of these pools is as follows:

<u>Bond</u>	<u>Maturity</u>	<u>Rate</u>	<u>Par Amount</u>
Series A	September 2, 2015	8.874% - 9.375%	\$ 5,900,000
Series B	September 2, 2015	11.300%	\$ 6,717,000

Series A was sold on the open market to private investors. The City purchased Series B. The proceeds from both series were used by LBBFA to purchase the original bonds as an investment. Assessment revenues from these investments were used to repay the new debt. As foreclosure proceedings were completed and the properties become performing, the Series B Bonds will be converted to Series A Bonds and sold to private investors.

In July 2005, the District sold \$2,100,000 in Series 2005A Bonds and \$1,249,000 Series B bonds. Series A was sold on the open market to private investors, the City purchased Series B bonds. The proceeds from the sale were used to fund an escrow to defease the 1997 Bonds.

Such bonds described above do not constitute indebtedness of the City. The City is in no way obligated for their repayment and is only acting on behalf of the bond owners in collecting the assessments and special taxes from the property owners, forwarding the collections to the bond owners and initiating foreclosure proceedings, when necessary. Accordingly, these special assessment bonds payable have been excluded from the accompanying basic financial statements.

Conduit Debt

The bond issues described below do not constitute general obligations of either the City, its Housing Authority (Authority) or the City's Redevelopment Agency (Agency). There is no legal or ethical obligation on the part of the City to make debt service payments on the conduit debt issues. Likewise the City has no responsibility for bond administration, as the issues are completely administered by independent trustees. Accordingly, these programs and issues have been excluded from the accompanying basic financial statements.

Several multifamily mortgage bonds have been issued under the auspices of the City's Authority and the Agency. These issues provided for the permanent financing and construction of apartment complexes. The resulting bonds are not obligations of the City of Long Beach and only constitute special limited obligations of the Authority and the Agency and are payable solely from the revenue and assets of the homeowner obtaining funding under this program.

The City has also allowed its name to be used in the issuance of Industrial Development Refunding Bonds to benefit a local university. These bonds are secured by the university's pledge of resulting assets.

Bonds have been issued in the City's name for land acquisition located in the City for a homeowners association. The bonds are payable from revenues of the condominium owners by way of lease payments and special assessments.

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Bonds have been issued in the City's name for Carnival Cruises to facilitate construction of a pier and wharf for a cruise line docking in the Tidelands area adjacent to the Queen Mary. The bonds are payable by a tariff assessed to Carnival Cruises.

The City has sponsored home mortgage revenue bonds to provide funds for the purchase of home mortgages secured by newly constructed and existing single family homes located in the City. These bonds are secured by a pledge of all receivables from single family mortgage loans purchased with the bond proceeds plus amounts held in the bond debt service accounts by the trustee for the issue.

At September 30, 2006, the City's Conduit Debt outstanding consisted of the following (in thousands):

Description	Final Maturity	Amount Authorized	Outstanding at September 30, 2006
Multi Family Mortgage Bonds			
Housing Authority	2028	\$ 12,500	\$ 12,500
Industrial Development			
Refunding Bonds	2023	11,620	9,740
Carnival Bonds	2022	32,100	29,635
Grisham Housing Bonds Series A	2035	2,340	2,326
Jamboree West Gate Home			
Mortgage Revenue Bonds	2037	11,000	9,129
Decro Multifamily Housing			
Revenue Bonds 2006A	2009	6,000	6,000
Total Conduit Debt		<u>\$ 75,560</u>	<u>\$ 69,330</u>

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NOTE 10 – NOTES, CERTIFICATES OF PARTICIPATION, COMMERCIAL PAPER
NOTES AND OTHER LONG-TERM OBLIGATIONS

At September 30, 2006, the City had several notes and installments payable, certificates of participation, commercial paper notes and other long-term obligations which consisted of the following (in thousands):

Description	Date Issued	Final Maturity	Range of Interest Rates	Authorized and Issued	Outstanding at September 30, 2006
<u>GOVERNMENTAL ACTIVITIES</u>					
<u>NOTES PAYABLE:</u>					
Health Fund					
Health Facility	04/22/05	04/22/19	Variable	\$ 3,586	\$ 3,297
Housing Development Fund:					
State of California	01/23/92	01/23/22	3%	1,016	1,016
California Housing Finance Agency	10/06/99	10/06/09	3%	1,200	969
California Housing Finance Agency	04/17/00	04/17/10	3%	800	670
California Housing Finance Agency	02/05/02	02/05/12	3%	600	444
California Housing Finance Agency	03/13/03	03/13/13	3%	1,300	1,158
Total Housing Development Fund				<u>4,916</u>	<u>4,257</u>
Redevelopment Capital Projects Fund:					
Los Angeles County	01/21/92	N/A	3.75%	2,142	2,142
West Broadway, LLC	06/03/04	06/18/09	6.0-8.0%	1,450	1,450
Total Redevelopment Capital Projects Fund				<u>3,592</u>	<u>3,592</u>
<u>ANNUITY OBLIGATION:</u>					
General Fund:					
Police and Fire Annuity	N/A	N/A	N/A	37,600	29,896
Governmental Activities Notes and Annuity Obligation				<u>\$ 49,694</u>	<u>\$ 41,042</u>
<u>BUSINESS-TYPE ACTIVITIES:</u>					
<u>NOTES PAYABLE:</u>					
Gas Fund					
Commercial Paper Notes	07/01/05	N/A	3.01-3.6%	7,755	7,755
Water Fund:					
Commercial Paper Notes	01/08/03	N/A	.95 - 3.4%	\$ 6,000	\$ 6,000
State Resources	06/30/88	06/30/08	4.0128%	2,000	230
Total Water Fund				<u>8,000</u>	<u>6,230</u>
Tidelands Fund:					
State of Calif DBAW/Seawalls	Var 1997	08/01/24	4.5%	1,285	969
State of Calif DBAW/Downtown Marina	08/01/83	08/01/11	4.5%	3,900	1,337
State of Calif DBAW/Downtown Marina	08/01/84	08/01/12	4.5%	3,500	1,549
State of Calif DBAW/Downtown Marina	08/01/85	08/01/12	4.5%	600	258
State of Calif DBAW/Shoreline Marina	08/01/82	08/01/10	4.5%	1,300	317
State of Calif DBAW/Shoreline Marina	04/17/02	08/01/32	4.5%	22,071	22,071
State of Calif DBAW/Los Cerritos Channel	08/01/81	08/01/08	4.5%	1,238	162
State of Calif DBAW/Basin 8	09/30/98	08/01/28	4.5%	2,650	2,439
State of Calif DBAW - Lighthouse	06/23/00	06/23/30	4.5%	700	618
Total Tidelands Fund				<u>37,244</u>	<u>29,720</u>
Harbor Fund:					
Commercial Paper Notes	03/01/94	N/A	3.52 - 3.55%	383,500	60,150
Nassir	09/21/94	09/12/08	6%	579	83
Total Harbor Fund				<u>384,079</u>	<u>60,233</u>
Airport Fund:					
Commercial Paper Notes	07/01/05	N/A	2.65-3.68%	15,000	1,020
<u>CERTIFICATES OF PARTICIPATION:</u>					
Airport Fund:					
1993 Airport Refunding	07/01/93	06/01/16	2.7-5.35%	16,815	9,960
Business-type Activities Notes and Certificates of Participation				<u>\$ 468,893</u>	<u>\$ 114,918</u>

N/A - Maturity date has not been established for these notes and annuities.

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Housing Development Fund Loan

The Housing Development Fund loan in the amount of \$1,016,000 at September 30, 2006 is payable at an interest rate of 3% to the State of California in January 2022. The Housing Development Fund has authorization to borrow \$3,900,000 from the California Housing Finance Agency at 3% interest rate. The Housing Development fund received \$3,878,000 from the California Housing Finance Agency. As of September 30, 2006, \$1,978,000 has been utilized for a revolving loan program for the acquisition and rehabilitation of multiple residential buildings for revitalization. The remaining amount of \$1,900,000 has been utilized for the acquisition and/or rehabilitation of multifamily rental units. As of September 30, 2006, \$969,000 is payable through 2009, \$670,000 is payable through 2010, \$1,158,000 is payable through 2013 and \$444,000 is payable through 2012.

Tax Increment Obligation

The Redevelopment Agency has an agreement to pay Los Angeles County 49.44% of tax increment generated by the Los Altos Area, payable commencing in 2020 at a simple interest rate of 3.75%. The tax increment due to the County at September 30, 2006 totaled \$2,142,000.

Debt Service requirements for governmental activities notes payable and the funds from which payments will be made are as follows (in thousands):

Year-end	Principal Payments By Fund			Annual Debt Service Requirements		
	Governmental Activities			Principal	Interest	Total
	Health Fund	Housing Development Fund	Redevelopment Capital Projects Fund			
2007	\$ 215	\$ -	\$ -	\$ 215	\$ 358	\$ 573
2008	219	-	-	219	349	568
2009	226	-	1,450	1,676	318	1,994
2010	233	1,639	-	1,872	205	2,077
2011	241	-	-	241	184	425
2012 - 2016	1,345	1,602	-	2,947	557	3,504
2017 - 2021	818	-	-	818	216	1,034
2022 - 2026	-	1,016	-	1,016	530	1,546
Indeterminant	-	-	2,142	2,142	2,075	4,217
Totals	<u>\$ 3,297</u>	<u>\$ 4,257</u>	<u>\$ 3,592</u>	<u>\$ 11,146</u>	<u>\$ 4,792</u>	<u>\$ 15,938</u>

No payment dates have been established for the Redevelopment Capital Projects Fund notes payable of \$2,142,000; therefore, no interest has been listed in the above table.

CITY OF LONG BEACH
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Business-Type Activities

Future debt service payments under various notes payable for the City's business-type activities are as follows (in thousands):

Year-end	Principal Payments By Fund					Annual Debt Service Requirements		
	Business-Type Activities					Principal	Interest	Total
	Gas	Water	Tidelands	Harbor	Airport			
2007	\$ -	\$ 143	\$ 1,394	\$ 41	\$ -	\$ 1,578	\$ 1,197	\$ 2,775
2008	-	87	1,301	42	-	1,430	1,279	2,709
2009	-	-	1,273	-	-	1,273	1,215	2,488
2010	-	-	1,331	-	-	1,331	1,159	2,490
2011	-	-	1,303	-	-	1,303	1,099	2,402
2012 - 2016	-	-	4,282	-	-	4,282	4,801	9,083
2017 - 2021	-	-	4,919	-	-	4,919	3,815	8,734
2022 - 2026	-	-	5,967	-	-	5,967	2,607	8,574
2027 - 2031	-	-	6,565	-	-	6,565	1,206	7,771
2032 - 2036	-	-	1,385	-	-	1,385	62	1,447
Indeterminant	7,755	6,000	-	60,150	1,020	74,925	-	74,925
Totals	<u>\$ 7,755</u>	<u>\$ 6,230</u>	<u>\$ 29,720</u>	<u>\$ 60,233</u>	<u>\$ 1,020</u>	<u>\$ 104,958</u>	<u>\$ 18,440</u>	<u>\$ 123,398</u>

In January 1987, the Water Department entered into a low-interest loan contract for \$2,000,000 with the State Water Resources Control Board for the purpose of funding the Reclaimed Water System Extension Project. The loan was funded in fiscal year 1988 and is payable in annual installments ranging from \$70,000 to \$143,000, at an interest rate of 4.0128% per year through January 2008. The balance outstanding at September 30, 2006 is \$230,000.

In October 2002, the Water Department authorized the issuance and sale of \$15,000,000 of City of Long Beach Subordinate Water Revenue Commercial Paper Notes Series A. Proceeds from the variable rate debt will be used for interim financing needs to assist with completing reclaimed water system expansion projects that are partially funded with Federal and State grants, and for ocean desalination research and development. On January 8, 2003, notes in the amount of \$6,000,000 were issued. Interest rates ranged from 0.95% to 3.40%. The Water Department intends to extend the notes to periods greater than one year, therefore, the outstanding amount has been classified as long-term obligations.

The Tidelands Fund entered into various loan agreements from August 1981 through September 2006 for construction and improvements to the Shoreline Marina, Downtown Marina, seawalls and a lighthouse with a harbor master's office, with an aggregate authorized and issued amount of \$37,244,000 as of September 30, 2006. The amount outstanding at September 30, 2006 is \$29,720,000. Annual principal payments in the amount of \$1,524,000 are currently in effect at an interest rate of 4.5%.

The Harbor Department authorized the issuance of up to \$383,500,000 in Commercial Paper notes. In 1994 the Harbor Department issued \$148,000,000 of Series A Commercial Paper Notes to pay for acquisition costs of property, facilities and oil rights in the North

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Harbor District. The Harbor Department redeemed \$12,850,000 of notes in 1997, and another \$75,000,000 in 2002. The amount outstanding at September 30, 2006 is \$60,150,000, with interest rates ranging from 3.52% to 3.55%. The Harbor Department also has other notes outstanding for \$82,667 at September 30, 2006. The Harbor Department has the ability to and intends to keep on extending the notes to periods longer than a year; accordingly, the outstanding amount has been classified as a long-term obligation.

Gas Commercial Paper

In July 2005, the City authorized the Department's issuance and sales, from time to time, of City's subordinate Gas Utility Revenue Commercial Paper Notes, Series A and Series B (taxable) in an aggregate principal amount not to exceed \$35,000,000. Commercial Paper is use for our pipeline integrity projects. The program termination date is July 1, 2020 unless earlier terminated or extended in accordance with program terms. As of September 30, 2006, \$7,755,000 in commercial paper notes has been issued with interest rates ranging from 3.01% to 3.6% in fiscal year 2006. Interest rates have ranged from 3.01% to 3.60% since its issuance. The Commercial Paper Note shall not have maturities exceeding 270 days and shall not bear interest rate in excess of the lesser of (a) 12% per annum and (b) the maximum rate of interest permitted by law. The Gas Department has the ability to and intends to keep on extending the notes to periods longer than a year; accordingly, the outstanding amount has been classified as a long-term obligation.

Airport Commercial Paper

On October 19, 2004, the City Council authorized the City's Public Works Department, Airport Bureau, to issue, on an as needed basis, up to \$15,000,000 of variable-rate, Airport Projects Commercial Paper Notes for short-term financing of qualified Airport capital projects. When issued, the net proceeds from the sale of the notes will be used to pay for projects that will be funded by Passenger Facility Charges (PFC) and FAA entitlement grants. As of September 30, 2006, \$1,020,000 in commercial paper notes had been issued with interest rates ranging from 2.65% to 3.68%. The Airport has the ability to and intends to keep on extending the notes to periods longer than a year; accordingly, the outstanding amount has been classified as a long-term obligation.

Certificates of Participation

The remaining debt service requirements for Certificates of Participation payable from the Airport Fund are as follows (in thousands):

Year-end	Annual Debt Service Requirements		
	Principal	Interest	Total
2006	\$ 785	\$ 505	\$ 1,290
2007	825	464	1,289
2008	870	421	1,291
2009	920	374	1,294
2010	965	328	1,293
2011 - 2015	5,595	867	6,462
Totals	<u>\$ 9,960</u>	<u>\$ 2,959</u>	<u>\$ 12,919</u>

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Police and Fire Annuity Obligation Program

The City administers a Police and Fire Annuity Program (Program) under the City Charter Section 187, prior to the programs termination in 1945. The terminated Program covers a diminishing number of public safety retirees or their surviving spouses. At September 30, 2006, there were 106 participants in this program.

Total expenditures to this closed group of individuals amounted to \$4,589,000 for the fiscal year ended September 30, 2006. The City's accrued Program liability was \$29,896,000 at September 30, 2006. Program benefits are funded when required to be paid. Accordingly, there are no assets of the Program.

The current year change in the accrued liability is comprised of the following (in thousands):

Accrued Program Liability at October 1, 2005	\$ 32,962
Increase (Decrease) During the Year Attributable to:	
Benefits Paid	(4,589)
Estimated Change in Annualized Value of Benefits	1,523
Accrued Program Liability at September 30, 2006	<u>\$ 29,896</u>

The number of Program participants diminishes each year. Since 1997, the number of program participants has been reduced by 99 individuals. The following table presents additional information for the Program (in thousands):

<u>Year-end</u>	<u>Number of Participants</u>	<u>Annuity Benefits Paid</u>	<u>Accrued Program Liability</u>
1997	205	\$7,783	\$61,207
1998	191	7,162	56,596
1999	181	7,093	57,500
2000	167	6,913	53,668
2001	157	6,641	51,222
2002	144	6,437	47,543
2003	131	5,865	40,948
2004	128	5,507	37,600
2005	109	4,966	32,962
2006	106	4,589	29,896

NOTE 11 – LEASING ARRANGEMENTS

Hyatt Long Beach Corporation Lease

In 1981, the City entered into a 50-year non-cancelable ground lease with a renewable term of 25 years, with a developer on certain Tideland properties held in trust by the City. The developer constructed a hotel and adjacent public facilities including a parking structure. In January 1995, the City renegotiated the agreements with the developer.

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Under the terms of the revised lease, the City will receive annual minimum ground lease rent of \$293,000, increased 10% every 5 years, plus 2.5% of the hotel's gross operating profit. Payment of these amounts is due 90 days after the close of the calendar year. The City accounts for the ground lease as an operating lease in the Tidelands Fund.

Concurrently, the developer leased the parking structure and public facilities to the City, a portion of which was sublet back to the developer. Under the terms of the lease, the City is obligated to pay the developer approximately \$2,855,000 per year through 2008, with incidental costs to be paid by the City thereafter. Subsequent to 2020, the City is not required to make any further lease payments. Under the terms of the sublease, the developer is obligated to pay the City approximately \$477,000 annually through 2008, with their proportionate share of the incidental costs thereafter.

The City has accounted for the lease and the sublease of the parking structure and public facilities as a capital lease payable and long-term lease receivable, respectively, in the Tidelands Fund using an interest rate of approximately 10%. At September 30, 2006, the outstanding capital lease payable and long-term lease receivable are \$5,470,000 and \$1,073,000, respectively.

Future debt service payments under this business-type activity capital lease payable and future minimum rentals to be received under this sublease are as follows (in thousands):

Fiscal Year-end	Debt Service Payments			Minimum Rentals
	Principal	Interest	Total	
2007	\$ 2,312	\$ 543	\$ 2,855	\$ 477
2008	2,509	346	2,855	477
2009	649	66	715	119
Totals	<u>\$ 5,470</u>	<u>\$ 955</u>	<u>\$ 6,425</u>	<u>\$ 1,073</u>

**CITY OF LONG BEACH
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Other Leases:

The City has various other capital leasing arrangements as follows (in thousands):

<u>Description</u>	<u>Date Issued</u>	<u>Final Maturity</u>	<u>Range of Interest Rates</u>	<u>Authorized and Issued</u>	<u>Outstanding at September 30, 2006</u>
<u>GOVERNMENTAL ACTIVITIES</u>					
General Fund:					
Emergency Communications Center (a)	06/21/02	06/21/07	3.62%	\$ 4,000	\$ 858
Emergency Communications Center (a)	06/21/02	06/21/09	3.94%	9,125	4,217
Helicopter (b)	02/03/03	02/03/10	2.91%	2,785	1,397
Mobile Data Terminals (c)	11/10/05	11/10/09	3.37%	2,902	2,329
City Light and Power (d)	05/01/96	10/03/19	8.73%	18,500	15,631
Street Sweepers (e)	10/02/03	10/02/07	2.36%	2,922	756
Ambulances (f)	10/02/03	10/02/09	2.97%	993	519
Software Lease (g)	05/06/04	05/06/07	2.46%	400	49
Total General Fund				<u>41,627</u>	<u>25,756</u>
Internal Service Funds:					
Civic Center Fund:					
Sisco Lease (h)	07/17/96	01/17/07	6.07%	<u>6,278</u>	<u>256</u>
Fleet Services Fund:					
Fire Equipment Lease (i)	10/01/05	09/30/15	3.50%	<u>5,279</u>	<u>4,830</u>
General Services Fund:					
Personal Computers (j)	08/15/06	08/15/10	3.99%	2,137	2,096
Personal Computers (j)	04/23/03	04/25/07	3.64%	1,276	193
Personal Computers (j)	08/18/04	08/18/08	2.71%	997	471
IBM Mainline (k)	06/29/05	06/29/09	3.02%	<u>2,183</u>	<u>1,529</u>
Total General Services Fund				<u>6,593</u>	<u>4,289</u>
Total Governmental Activities Leases				<u>\$ 59,777</u>	<u>\$ 35,131</u>
<u>BUSINESS-TYPE ACTIVITIES:</u>					
Tidelands Fund:					
Convention Center (l)	10/01/05	10/01/26	4.99%	<u>\$ 649</u>	<u>\$ 649</u>

- (a) The City entered into capital lease agreements to purchase equipment for the Emergency Communications and Operations Center. The annual payment, including principal and interest, is \$2,386,000 which is paid annually through fiscal year 2009.
- (b) The City entered into a capital lease agreement to purchase a helicopter for use by the Police Department for safety enforcement. The lease is payable monthly in the amount of \$37,000 at 2.91% interest, or \$444,000 per year through February 2010.
- (c) The City entered into a capital lease agreement to purchase mobile data terminals for use by the Police Department. The lease is payable monthly in the amount of \$65,000 at 3.37% interest through fiscal year 2010.
- (d) The City entered into a capital lease agreement in May 1996 to improve and replace the street lighting infrastructure in the City. The lease is payable monthly; the amount varies by year, with the initial year at \$57,000 per month and the maximum amount for the sixth through twenty-fifth years at \$163,000 per month.
- (e) The City entered into a capital lease agreement in October 2003 for the acquisition of street sweepers, payable in monthly installments of \$63,800 through 2007.

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- (f) The City entered into a capital lease agreement in October 2003 to finance the replacement of ten advanced life-support ambulances. The lease is payable in monthly installments of \$15,000 through 2009.
- (g) The City entered into a capital lease agreement in May 2004 to purchase a legislative information management system. The lease is payable in monthly installments of \$11,500 through 2007.
- (h) The City entered into a capital lease to make energy conservation improvements to the Civic Center building. The monthly installments vary through January 2007 and do not exceed \$78,000 per month.
- (i) The City entered into a capital lease agreement to finance the acquisition of equipment for the Fire Department including two ladder trucks, ten pumper trucks and a life saving boat. The lease is payable in monthly installments of \$52,000 through September 2015.
- (j) The City entered into several capital lease agreements to finance the acquisition of personal computers. The leases are payable monthly through 2010, and the aggregate monthly payments are \$97,000.
- (k) The City entered into a capital lease to finance the purchase of IBM processors and related equipment. The lease is payable monthly in installments of \$48,000 through June 2009.
- (l) The City entered into a capital lease to finance the installation of a surface membrane to the Convention Center roof. The lease is payable in annual installments of \$52,000 through October 2026.

Aggregate future debt service payments under the City's governmental-activities various capital leases are as follows (in thousands):

Year-end	Principal Payments By Fund - Governmental Activities				Annual Debt Service Requirements		
	General	Civic Center	Fleet Services	General Services	Principal	Interest	Total
2007	\$ 4,939	\$ 256	\$ 465	\$ 1,493	\$ 7,153	\$ 1,926	\$ 9,079
2008	3,394	-	481	1,300	5,175	1,679	6,854
2009	3,584	-	549	976	5,109	1,458	6,567
2010	1,125	-	516	520	2,161	1,267	3,428
2011	918	-	535	-	1,453	1,158	2,611
2012 - 2016	5,947	-	2,284	-	8,231	4,118	12,349
2017 - 2021	5,849	-	-	-	5,849	870	6,719
Totals	<u>\$ 25,756</u>	<u>\$ 256</u>	<u>\$ 4,830</u>	<u>\$ 4,289</u>	<u>\$ 35,131</u>	<u>\$ 12,476</u>	<u>\$ 47,607</u>

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Annual debt service requirements to maturity for business-type activities capital leases are as follows (in thousands):

Year-end	Tidelands Fund		
	Principal	Interest	Total
2007	\$ 19	\$ 32	\$ 51
2008	21	32	53
2009	22	31	53
2010	23	29	52
2011	24	28	52
2012 - 2016	138	122	260
2017 - 2021	176	84	260
2022 - 2026	226	35	261
Totals	<u>\$ 649</u>	<u>\$ 393</u>	<u>\$ 1,042</u>

Future Rental Income Under Operating Leases

Aggregate minimum future rental income under non-cancelable operating leases having an initial term in excess of one year is as follows (in thousands):

<u>Year-end</u>	
2007	\$ 219,223
2008	216,320
2009	209,695
2010	197,357
2011	194,737
2012-2016	907,707
2017-2021	856,391
2022-2026	644,121
2027-2031	117,833
2032-2036	42,338
2037-2041	39,740
2042-2046	38,457
2047-2051	33,494
2052-2056	9,827
2057-2061	4,812
2062-2066	3,362
2067-2071	3,362
2072-2076	3,362
2077-2081	3,362
2082-2086	1,879
Total	<u>\$ 3,747,379</u>

NOTE 12 – RETIREMENT PROGRAMS

Plan Description

The City contracts with the California Public Employees' Retirement System (CalPERS), an agent multiple-employer public employee defined benefit pension plan. CalPERS provides retirement and disability benefits, including annual cost-of-living adjustments, and

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death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by State statute and City ordinance. Copies of CalPERS' annual financial report may be obtained from their executive office: 400 P Street, Sacramento, CA 95814. Since CalPERS is on a fiscal year ending June 30, all actuarial calculations for the City's retirement plan are made on a fiscal year ending June 30, which differs from the City's September 30 fiscal year end.

Under the terms of the contract between CalPERS and the City, all full-time employees are eligible to participate in CalPERS and become vested in the system after five years of service. The City has a multiple tier retirement plan with benefits varying by plan. Vested first and second tier safety employees who retire at age 50 are entitled to receive an annual retirement benefit, payable monthly for life, in an amount equal to 3% of the employee's highest paid year of employment for each year of credited service. Vested first and second tier non-safety employees who retire at age 55 are entitled to receive an annual retirement benefit, payable monthly for life, in an amount equal to 2.7% of their highest paid year of employment for each year of credited service for the first tier, and for the second tier effective in fiscal year 2004. The City created tier III for non-safety employees hired after October 1, 2006. Vested tier III non-safety employees who retire at age 55 are entitled to receive an annual retirement benefit, payable monthly for life, in an amount equal to 2.5% of their highest paid year of employment for each year of credited service.

The City amended its safety and miscellaneous retirement plans to create second tiers in fiscal year 1990 and a third tier for miscellaneous employees in fiscal year 1996. During fiscal year 2002 the third tier was eliminated and plan participants were absorbed into the second tier. A third tier was set up effective for fiscal year 2007. Retirees under the first tier are eligible to receive a maximum annual 5% cost-of-living increase in their retirement benefit, while those under the second and third tier are eligible to receive a maximum annual 2% cost-of-living increase.

Funding Policy

In November 1998, the City was informed by CalPERS that all of its retirement plans were overfunded based on the actuarial valuation completed as of June 30, 1997. Accordingly, the City's employer contribution rates were reduced by CalPERS to zero for all plans effective November 13, 1998. Participants were required to contribute 7% of their earnings for all miscellaneous and 9% for all police, fire and lifeguard employees. The City continued to make these employee contributions as required by CalPERS law through July 2, 1999 at which time it was informed by CalPERS that no further contributions were required. The City was overfunded through September 30, 2004 and was not required to pay CalPERS any employee or employer contributions for any of its plans through fiscal year 2004.

Contribution requirements of plan members and the City are established and may be amended by CalPERS. The City contribution payments to CalPERS for fiscal year 2006 for both Safety and Miscellaneous Plans was 15.100% and 11.325% respectively. The employee rate for Safety is 9%, miscellaneous tier one and two employee rate is 8% and miscellaneous tier three effective in fiscal year 2007 is 7%. Safety employees pay CalPERS 1% of the 9% employee rate and the City pays 8%. Miscellaneous employees paid 2% of the 8% to CalPERS and the City pays 6%. Management employees and certain

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employee groups who serve in sensitive, confidential capacities pay 1% of the 8% to CalPERS and the City pays 7%. Effective in fiscal year 2007 Safety will pay 2% of the 9% employee rate and all miscellaneous employees in tier one and two will pay 2% of the 8%. Miscellaneous employees in tier three will pay 2% of the 7% employee rate.

The funded normal cost rates are as follows:

Contribution Rates for Fiscal Year 2007

Employees Covered	Normal Cost	Amortization of Unfunded Liability	Total Employer Rate	Employee Rate *
Safety	17.912 %	(1.349) %	16.563 %	9%
Miscellaneous	10.121 %	1.891 %	12.012 %	8%
Miscellaneous (1)	10.121 %	1.891 %	12.012 %	7%

Contribution Rates for Fiscal Year 2006

Employees Covered	Normal Cost	Amortization of Unfunded Liability	Total Employer Rate	Employee Rate *
Safety	17.914 %	(2.814) %	15.100 %	9%
Miscellaneous	10.101 %	1.224 %	11.325 %	8%

* Miscellaneous employee rate increased to 8% from 7 % effective August 24, 2004.

(1) Tier three effective October 1, 2006.

Annual Pension Cost

A summary of principal assumptions and methods used to determine the annual required contribution rate for fiscal year 2006 for miscellaneous and safety employees is shown below.

	Assumptions
Valuation Date	June 30, 2004
Actuarial Cost Method	Entry Age Actuarial Cost Method
Amortization Method	Level Percent of Payroll
Average Remaining Period	32 Years as of the Valuation Date
Asset Valuation Method	15 Year Smoothed Market
Actuarial Assumptions:	
Investment Rate of Return	7.75% (net of administrative expenses)
Projected Salary Increases	3.25% to 14.45% depending on age, service, and type of employment
Inflation	3.00%
Payroll Growth	3.25%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation component of 3.00% and an annual production growth of 0.25%.

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Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into CalPERS. Subsequent plan amendments are amortized as a level percentage of pay over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over a rolling period, which results in an amortization of about 6% of unamortized gains and losses each year. In the event that a plan's accrued liability exceeds the actuarial value of plan assets, the amortization payment on the total unfunded liability may not be lower than the payment calculated over a 30 year amortization period.

The Schedule of Funding Progress below shows the recent history of the actuarial value of assets, actuarial accrued liability, their relationship, and the relationship of the excess assets to payroll.

Three-Year Trend Information for CalPERS – Net Pension Obligation

(Unaudited) (In thousands)			
September 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2004	--	100%	--
2005	\$48,147	100%	--
2006	58,763	100%	--

The City's contribution rate from July 1999 through fiscal year 2004 was zero, therefore there is no annual pension cost for fiscal year 2004.

Public Agency Retirement System – Defined Benefit Plan

In November 1994, the City established Public Agency Retirement System (PARS) Defined Benefit Plans for Special Status Contractors and Seasonal and Temporary Employees (The Plans). During fiscal year 2003, the plans were reported under a combined plan (The Plan). The Plan is a defined benefit, single employer retirement plan. The Plan, which took effect on January 1, 1995, is administered for the City through a third party administrator. The Plan provides for retirement as well as death and disability benefits to eligible individuals and their beneficiaries.

The Plan benefit is a lifetime monthly annuity equal to 1.50% times the final average of the participant's highest 36 consecutive month's salary times the years of service. The Plan requires employee contributions of 6.2% of earnings (Contractors Special Status) and 3.0% of earnings (Seasonal and Temporary Employees). All employees enter the Plan upon hire and all benefits are vested after 5 years of service (Contractors Special Status) or immediately (Seasonal and Temporary Employees) and employees are always vested in their employee contributions. It is assumed that upon termination, employees will choose to receive an actuarially equivalent lump sum (based on the actuarial assumptions described below).

CITY OF LONG BEACH
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The City's funding policy is to make the contribution as determined by the Plan's actuary as of September 30, 2006. The following information describes the calculation methodology:

- The Plan's annual pension cost (APC) for the fiscal year ended September 30, 2006 is based on the period from October 1, 2005 to September 30, 2006. The APC for this period was \$30,179, the same amount contributed for this period.
- The actuarial liabilities and assets are valued as of September 30, 2006.
- The actuarial funding method used is the projected-unit-credit-method. Under this method the contribution rate is the sum of the normal cost rate plus the unfunded actuarial liability rate. The normal cost is defined as the actuarial present value of benefits allocated to the valuation year and the actuarial accrued liability is the present value of benefits allocated to all periods prior to the valuation year. The normal cost rate is determined by dividing the normal cost by expected covered payroll.

In determining the Plan's actuarial accrued liability, the projected benefit of each participant must be allocated between the past year and future years. This allocation is made by multiplying the projected benefit by a fraction, the numerator of which is the participant's total credited years of service on the valuation date, and the denominator is the participant's total credited years of service at anticipated benefit commencement.

The unfunded actuarial liability is the difference between the actuarial accrued liability and plan assets. This difference is amortized as a level dollar amount (over a seven year period in the 2005 actuarial valuation used to determine fiscal year 2006 Annual Pension Cost) to determine the unfunded actuarial liability rate.

The following is a summary of the actuarial assumptions:

Interest Rate:	4.50%																				
Mortality:	1983 Group Annuity Mortality Table																				
Turnover:	Sample rates are:																				
	<table><tr><td><u>Age</u></td><td><u>Turnover</u></td><td><u>Age</u></td><td><u>Turnover</u></td></tr><tr><td>25</td><td>15%</td><td>45</td><td>10%</td></tr><tr><td>30</td><td>15%</td><td>50</td><td>10%</td></tr><tr><td>35</td><td>15%</td><td>55</td><td>5%</td></tr><tr><td>40</td><td>15%</td><td>60</td><td>5%</td></tr></table>	<u>Age</u>	<u>Turnover</u>	<u>Age</u>	<u>Turnover</u>	25	15%	45	10%	30	15%	50	10%	35	15%	55	5%	40	15%	60	5%
<u>Age</u>	<u>Turnover</u>	<u>Age</u>	<u>Turnover</u>																		
25	15%	45	10%																		
30	15%	50	10%																		
35	15%	55	5%																		
40	15%	60	5%																		
	Seasonal and Temporary Employees' first five years of service assume the following rates:																				
	<table><tr><td><u>Years of Service</u></td><td><u>Turnover</u></td></tr><tr><td>0</td><td>50%</td></tr><tr><td>1</td><td>35%</td></tr><tr><td>2</td><td>25%</td></tr><tr><td>3</td><td>25%</td></tr><tr><td>4</td><td>20%</td></tr></table>	<u>Years of Service</u>	<u>Turnover</u>	0	50%	1	35%	2	25%	3	25%	4	20%								
<u>Years of Service</u>	<u>Turnover</u>																				
0	50%																				
1	35%																				
2	25%																				
3	25%																				
4	20%																				
Salary Scale:	5.0%																				
Retirement Age:	Age 65 or attained age, if older.																				
Form of Benefit:	Participants are assumed to receive a lump sum upon termination.																				

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The interest rate was changed for the 2006 valuation from 6.0% to 4.5%. The net impact of this assumption change increased the actuarial accrued liability by approximately \$73,000.

The net pension obligation information below is based on periods from July 1 through June 30 prior to 2005 and October 1 through September 30 beginning in 2005.

<u>Fiscal Year</u>	<u>Annual Pension Costs</u>	<u>Actual Contribution</u>	<u>Percentage Contribution</u>	<u>Net Pension Obligation</u>
1997	\$ 181,910	\$ 181,910	100%	-
1998	170,014	170,014	100%	-
1999	196,853	196,853	100%	-
2000	188,924	188,924	100%	-
2001	102,749	102,749	100%	-
2002	74,497	74,497	100%	-
2003	75,338	75,338	100%	-
2004	19,471	19,471	100%	-
2005	-	-	100%	-
2006	30,179	30,179	100%	-

NOTE 13 – POST RETIREMENT HEALTH CARE BENEFITS

Full-time City employees are entitled to receive up to 96 hours of sick leave per year. Unused sick leave may be accumulated until termination or retirement. No sick leave benefits are vested; however, under the provisions of the City's Personnel Ordinance, upon retirement, the City allows retirees, their spouses and eligible dependents to use the cash value at retirement of the retiring employee's accumulated unused sick leave to pay for health, dental and long-term care insurance premiums under the City's Retired Employees Health Insurance Program. Once the cash value of the retired employee's unused sick leave is exhausted, the retiree is required to pay all premiums. The City provided a one-time early retirement incentive of a maximum of \$25,000 for employees who retired during calendar year 1996. The amount of the incentive was based on age, and was credited to accumulated sick leave to be used towards health insurance costs during retirement. In fiscal year 2004, management was offered a 16 hour increase in sick leave per year of service for retirement by June 30, 2004.

At September 30, 2006, there were 769 participants in the City's Retired Employees Health Insurance Program, and the non-interest bearing cash value equivalent of the remaining unused sick leave for the current retirees totaled \$20,079,000. Total premiums paid by the City under the Retired Employees Health Insurance Program during the twelve months ended September 30, 2006, were \$5,527,000, and are included in the expenses of the Employee Benefits Internal Service Fund.

The City has recorded a liability in the Employee Benefits Internal Service Fund of \$70,556,000, based on an actuarial study of current and future retiree accumulated sick leave as of September 30, 2005 and updated as of September 30, 2006. The liability takes into account an estimate of future usage, additional leave accumulation and wage increases for both current retirees and active employees, and an additional amount relating to the sick

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leave incentive for employees who retired during calendar year 1996. The actuarial study assumes an investment return of 5.0%; wage increases of 3.5% per year for miscellaneous and 4.5% per year for safety employees, and insurance premium increases of 4.5%. The estimated current portion of such obligation of \$6,200,000, recorded in current accrued wages and benefits, has been fully funded; the long-term portion of the liability of \$64,356,000 is being funded, over time, through burden rates charged to the various City funds, applied as a percent of current productive salaries.

NOTE 14 – SELF – INSURANCE PROGRAMS

The City has adopted separate self-insurance programs for workers' compensation and general liability claims. At September 30, 2006, the City accrued nondiscounted estimates totaling \$104,790,000 for workers' compensation and general liability claims. This represents estimates of amounts to be paid for actual, and incurred but not reported claims based upon past experience, modified for current trends and developments. The City has no outstanding annuities payable. The City has recorded a current liability of \$19,010,000 and a long-term liability of \$85,780,000 in the Insurance Internal Service Fund.

The ultimate amount of losses incurred through September 30, 2006 is dependent on future developments. Based upon information from the City Attorney, outside counsel and others involved with the administration of the programs, the City's management believes that the aggregate accrual adequately represents such losses.

A summary of the City's claims activity for the fiscal year ended September 30, 2006 and 2005 is as follows (in thousands):

	Worker's Compensation Claims	General Liability Claims	Total
Balance at October 1, 2004	\$ 76,135	\$ 19,800	\$ 95,935
Additions	43,272	10,816	54,088
Payments	(13,595)	(2,316)	(15,911)
Balance at September 30, 2005	105,812	28,300	134,112
Additions (Reductions)	(1,837)	9,679	7,842
Payments	(13,685)	(23,479)	(37,164)
Balance at September 30, 2006	<u>\$ 90,290</u>	<u>\$ 14,500</u>	<u>\$ 104,790</u>

Component Unit

Under its insurance program, the LBT retains the risk for each occurrence of worker's compensation and public liability and property damage claimed up to \$3,000,000 and \$1,000,000, respectively. Claims in excess of \$3,000,000 for worker's compensation and \$1,000,000 for public liability and property damage are covered under policies in force with an independent insurer up to \$25,000,000 for workers compensation and \$10,000,000 for public liability and property damage. The amount of settlements for both worker's compensation and public liability and property damage did not exceed the insurance coverage limits in fiscal year 2006 and 2005.

CITY OF LONG BEACH
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

The LBT's policy is to estimate and recognize losses on the accrual basis, including estimates of claims incurred but not reported, based on the report of the LBT's independent claims manager, and to maintain designated cash and investments to fund the estimated liabilities.

The changes in estimated liabilities for reported claims are as follows for the LBT (in thousands):

	Worker's Compensation	Public Liability and Property Damage	Total
Balance at July 1, 2004	\$ 2,700	\$ 1,688	\$ 4,388
Reserves:			
New claims	464	586	1,050
Adjustments to existing claims	1,547	166	1,713
Payments	<u>(2,497)</u>	<u>(1,647)</u>	<u>(4,144)</u>
Balance at June 30, 2005	2,214	793	3,007
Reserves:			
New claims	746	849	1,595
Adjustments to existing claims	52	1,895	1,947
Payments	<u>(716)</u>	<u>(2,542)</u>	<u>(3,258)</u>
Balance at June 30, 2006	<u>\$ 2,296</u>	<u>\$ 995</u>	<u>\$ 3,291</u>

CITY OF LONG BEACH
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

NOTE 15 – GOVERNMENTAL ACTIVITIES FUND BALANCE

The composition of the reserved portion of the governmental activities fund balance at September 30, 2006 is as follows (in thousands):

	General Fund	Major Governmental Funds Other than General Fund	Nonmajor Governmental Funds	Totals
Reserved for:				
Other Noncurrent Receivables (a)	\$ 100,924	\$ 31,046	\$ -	\$ 131,970
Asset Seizure Money (b)	2,463	-	-	2,463
Encumbrances	1,274	10,390	4,915	16,579
Future Advances to Other Funds - restricted by City Charter	1,486	-	-	1,486
Transportation Projects (c)	-	-	4,976	4,976
Housing Development - restricted by State law	-	104	-	104
Future Projects	-	114,814	20,788	135,602
Land Held For Resale	-	118,832	-	118,832
Estimated Oil Field Abandonment Costs	-	-	3,495	3,495
Debt Service Covenants	5,812	48,534	200	54,546
Totals	<u>\$ 111,959</u>	<u>\$ 323,720</u>	<u>\$ 34,374</u>	<u>\$ 470,053</u>

- (a) The reserve for noncurrent receivables represents long-term loan receivables and long-term advances to other funds not available to finance current expenditures because receipt is not anticipated in the near future since there is no specified repayment dates for these advances. The General Fund reserve for noncurrent receivables funds mainly consists of \$98,924,000 due from the Redevelopment Capital Projects Fund, based on a cooperative agreement in which the City agreed to advance funds to use on redevelopment projects. Debt service payments to the General Fund are expected as future property tax increment funds become available. At this time there is no repayment schedule. In addition, \$2,000,000 is due from the Health Fund for advances to cover cash flow. There is no repayment date for the Health Fund advance.

Other major governmental fund advances to other funds consist of \$20,800,000 due to the Housing Development Special Revenue Fund from the Redevelopment Capital Projects Fund, \$3,819,000 due to the Community Development Grants Fund from the Housing Development Special Revenue Fund and \$1,615,000 due to the General Capital Projects Fund from the Redevelopment Capital Projects Fund. Repayments depend on available future tax revenue increments. The Housing Assistance nonmajor governmental fund advance from the Community Development Grants Fund in the amount of \$2,900,000 is due to a loan for the purpose of meeting voucher obligations of the Authority under the HUD Section 8 Program. Repayment is dependent on HUD funding and no annual payments are required by the Authority to repay the loan.

**CITY OF LONG BEACH
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2006**

The balance of \$1,912,000 mainly represents long-term notes receivable for the Redevelopment Agency and Housing Development Special Revenue Fund, which do not provide current available resources.

- (b) The reserve for asset seizure money comes from the sale of assets seized under probable cause in a criminal investigation. The resulting funds must be used to enhance criminal investigations, detection and prosecution, and shall not supplant the existing Police Department budget.
- (c) The reserve for transportation projects represents the fund balance of the Transportation Fund Special Revenue Fund which is restricted for use to specified transportation projects requiring advance approval of the Los Angeles County Transportation Commission.

Fund Deficits

The Internal Service Funds include accumulated deficits in the Insurance and Employee Benefits Internal Service Funds which aggregate \$90,922,000 and \$47,150,000, respectively. The City's Management believes the cash position is sufficient to cover the current costs related to retired health insurance, worker's compensation, general liability claims and current operating costs in the Insurance and Employee Benefits Internal Service funds. The City's Management intends to adjust billings to City departments as needed to ensure that adequate cash positions are maintained.

CITY OF LONG BEACH
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

NOTE 16 – RECONCILIATION OF ACTUAL REVENUES AND EXPENDITURES TO THE NON-GAAP BUDGETARY BASIS

The following reconciles actual revenues and expenditures for general fund and major special revenue funds to the non-GAAP budgetary basis for the fiscal year ended September 30, 2006 (in thousands):

	General Fund	Housing Development Fund	Community Development Fund
Beginning Fund Balance- Actual (GAAP Basis)	\$ 150,229	\$ 42,027	\$ 10,512
Cumulative Effect of Capitalization of Land Held For Resale at October 1, 2004	-	-	-
Beginning Fund Balance - Budgetary Basis	150,229	42,027	10,512
Revenues on the Budgetary Basis	325,311	18,705	26,770
Actual (GAAP-Basis) Expenditures	359,633	11,005	23,190
Basis Adjustments:			
Encumbrances Outstanding at September 30, 2005	1,274	-	26
Expenditures - Budgetary Basis	360,907	11,005	23,216
Excess of Revenues Over (Under) Expenditures - Budgetary Basis	(35,596)	7,700	3,554
Other Financing Sources (Uses) (GAAP-Basis)	31,530	(4,312)	(2,678)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses - Budgetary Basis	(4,066)	3,388	876
Ending Fund Balance - Budgetary Basis	\$ 146,163	\$ 45,415	\$ 11,388

The City's budget in any given fiscal year is incremented by the amount of encumbrances outstanding at the end of the prior fiscal year in accordance with City Council adopted ordinance.

NOTE 17 – SEGMENT INFORMATION FOR BUSINESS-TYPE ACTIVITIES FUNDS

The City has issued various revenue bonds to finance the purchase of the Aquarium of the Pacific, the Marina facilities and the Rainbow Harbor Area infrastructure improvements. Each of the revenue bonds is accounted for in the City's Tidelands Fund. Investors in the revenue bonds rely solely on the revenue generated by the individual activities for repayment.

The Aquarium of the Pacific 2001 Revenue Bonds, issued in the amount of \$129,520,000, are accounted for in the Tideland Operating segment. The Tideland Operating segment is used to account for the business-type operations of the Long Beach Convention and Entertainment Center, as well as beach maintenance and beach/water safety programs directly related to the tidelands area, including lifeguards and patrol boats. Beginning with the 1997 fiscal year, leases for areas adjacent to the Queen Mary were also

CITY OF LONG BEACH
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

included in the Tideland Operating segment. The Tideland Operating segment had purchase of goods and services and construction project commitments of \$384,000.

The 1994 Marina Subordinate Revenue Bonds, issued in the amount of \$1,310,000 and the 1995 Marina Refunding Revenue bond issued in the amount of \$31,725,000 are accounted for in the Marina segment. The Marina segment is used to account for the enterprise operations of the City's Alamitos Bay and Downtown Marinas. The Marina segment had commitments of \$7,288,000 for the purchase of goods, services and construction.

The 1999 Rainbow Harbor Financing Project Revenue Bonds, issued in the amount of \$47,970,000, were accounted for in the Rainbow Harbor Area segment. In March 2006, the Long Beach Bond Finance Authority issued \$50,785,000 in Lease Revenue Bonds 2006 Series A (Rainbow Harbor Refinancing Project) (2006 Series A) which included debt in the amount of \$46,635,000 to refund the Long Beach Bond Finance Authority Lease Revenue Bonds (Rainbow Harbor Refinancing Project) 1999 Series A. The Rainbow Harbor Area segment is used to account for the Rainbow Harbor Area administration, the Rainbow Harbor financing and the Aquarium of the Pacific Parking Structure operations. The Rainbow Harbor Area segment had commitments of \$107,000 for the purchase of goods, services and construction.

The Parking Authority issued \$5,855,000 in Certificates of Participation to partially fund the Aquarium of the Pacific Parking Structure. In March 2006, the Long Beach Bond Finance Authority issued \$50,785,000 in Lease Revenue Bonds 2006 Series A (Rainbow Harbor Refinancing Project) (2006 Series A) which included debt in the amount of \$4,150,000 to refund the 1997 Certificates of Participation (Queensway Bay Parking Facility). Money from the parking structure built in the Rainbow Harbor Area segment is pledged for the debt service payment.

CITY OF LONG BEACH
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

Summary financial information for each segment is presented below (in thousands) as of September 30, 2006:

City of Long Beach Business-Type Activities Tidelands Fund Segments Statement of Net Assets September 30, 2006 (In Thousands)			
	<u>Tideland Operating</u>	<u>Marina</u>	<u>Rainbow Harbor Area</u>
ASSETS			
Current Assets:			
Pooled Cash and Cash Equivalents	\$ 13,205	\$ 925	\$ 3,101
Receivables:			
Interest Receivable	-	-	-
Accounts Receivable	6,784	139	3
Due from Other Governments	279	111	-
Due from Other Funds	15,956	-	-
Capital Leases Receivable-Current	386	-	-
Allowance for Receivables	(3,945)	(205)	-
Inventory	-	109	-
Total Current Assets	<u>32,665</u>	<u>1,079</u>	<u>3,104</u>
Restricted Assets:			
Pooled Cash and Cash Equivalents	8,051	3,546	2,397
Non-Pooled Cash and Cash Equivalents	15,279	-	4,762
Interest Receivable	247	-	-
Total Restricted Assets	<u>23,577</u>	<u>3,546</u>	<u>7,159</u>
Noncurrent Assets:			
Noncurrent Receivables:			
Capital Lease Receivable	527	-	-
Capital Assets:			
Land and Other Capital Assets not being Depreciated	32,630	30,349	11,953
Capital Assets			
net of Accumulated Depreciation	191,578	25,279	74,806
Deferred Charges-Long-Term	14,591	-	-
Total Noncurrent Assets	<u>239,326</u>	<u>55,628</u>	<u>86,759</u>
Total Assets	<u>295,568</u>	<u>60,253</u>	<u>97,022</u>

(continued)

CITY OF LONG BEACH
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

City of Long Beach
Business-Type Activities
Tidelands Fund Segments
Statement of Net Assets
September 30, 2006
(In Thousands)
(continued)

	<u>Tideland Operating</u>	<u>Marina</u>	<u>Rainbow Harbor Area</u>
LIABILITIES			
Current Liabilities Payable from Current Assets:			
Accounts Payable	\$ 1,139	\$ 2,176	\$ 3,083
Accrued Wages	288	177	27
Accrued Interest Payable	40	134	-
Due to Other Funds	841	87	13
Deferred Revenues	833	2,081	25
Collections Held in Trust	35	50	1
Obligations Under Capital Leases-Current	2,331	-	-
Bonds Payable Due Within One Year	2,765	3,230	2,070
Other Long-Term Obligations-Current	36	1,343	15
Total Current Liabilities	<u>8,308</u>	<u>9,278</u>	<u>5,234</u>
Current Liabilities Payable from Restricted Assets:			
Accrued Interest Payable	<u>2,730</u>	<u>-</u>	<u>946</u>
Noncurrent Liabilities:			
Advances from Other Funds	19,538	-	-
Obligations Under Capital Leases-Current	3,788	-	-
Other Long-Term Obligations	933	26,790	603
Bonds Payable	126,755	3,420	48,715
Unamortized Discount/Deferred Costs	<u>(12,620)</u>	<u>(247)</u>	<u>(3,878)</u>
Total Noncurrent Liabilities	<u>138,394</u>	<u>29,963</u>	<u>45,440</u>
Total Liabilities	<u>149,432</u>	<u>39,241</u>	<u>51,620</u>
NET ASSETS			
Investment in Capital Assets, Net of Related Debt	100,220	21,092	39,234
Restricted for:			
Debt Service	12,620	3,546	5,761
Capital Projects	-	-	452
Aquarium Operations and Maintenance Reserve	7,978	-	-
Unrestricted	<u>25,318</u>	<u>(3,626)</u>	<u>(45)</u>
Total Net Assets	<u>\$ 146,136</u>	<u>\$ 21,012</u>	<u>\$ 45,402</u>

CITY OF LONG BEACH
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

City of Long Beach
Business-Type Activities
Tidelands Fund Segments
Statement of Revenues, Expenses and Changes in Fund Net Assets
For the Fiscal Year Ended September 30, 2006
(In Thousands)

	Tideland Operating	Marina	Rainbow Harbor Area
Operating Revenues:			
Licenses and Permits	\$ 474	\$ -	\$ 1
Fees, Concessions and Rentals	7,451	16,580	6,403
From Other Agencies	582	-	-
Charges for Services	40,352	111	-
Total Revenues	<u>48,859</u>	<u>16,691</u>	<u>6,404</u>
Operating Expenses:			
Personal Services	19,190	7,522	988
Maintenance and Other Operations	38,218	4,392	7,740
Amortization	515	58	-
Depreciation	9,937	1,774	3,751
Total Operating Expenses	<u>67,860</u>	<u>13,746</u>	<u>12,479</u>
Operating Income (Loss)	<u>(19,001)</u>	<u>2,945</u>	<u>(6,075)</u>
Non-Operating Income (Expense):			
Interest Income	2,957	156	348
Interest Expense	(8,198)	(1,516)	(2,501)
Gain on Disposition of Fixed Assets	-	24	-
Other Income	701	197	(10)
Total Non-Operating Expense	<u>(4,540)</u>	<u>(1,139)</u>	<u>(2,163)</u>
Income (Loss) Before Contributions and Transfers	<u>(23,541)</u>	<u>1,806</u>	<u>(8,238)</u>
Transfers:			
Transfers In	37,589	-	7,820
Transfers Out	(7,521)	-	(299)
Change in Net Assets	<u>6,527</u>	<u>1,806</u>	<u>(717)</u>
Net Assets - October 1	139,609	19,206	46,119
Net Assets - September 30	<u>\$ 146,136</u>	<u>\$ 21,012</u>	<u>\$ 45,402</u>

CITY OF LONG BEACH
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

City of Long Beach
Business-Type Activities
Tidelands Major Segments
Statement of Cash Flows
For the Fiscal Year Ended September 30, 2006
(In Thousands)

<u>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</u>	<u>Tideland Operating</u>	<u>Marina</u>	<u>Rainbow Harbor Area</u>
Cash Flows from Operating Activities:			
Receipts from Customers	\$ 48,175	\$ 16,772	\$ 6,406
Receipts from Other Governments	369	-	-
Payments for Employee Salaries	(19,077)	(7,499)	(981)
Payments for Goods and Services	(37,823)	(4,166)	(6,386)
Other Income	701	120	(11)
Net Cash Provided by (Used for) Operating Activities	<u>(7,655)</u>	<u>5,227</u>	<u>(972)</u>
Cash Flows from Non-Capital Financing Activities:			
Transfers In	32,042	-	7,820
Transfers Out	<u>(7,521)</u>	<u>-</u>	<u>(299)</u>
Net Cash Provided by Non-Capital Financing Activities	<u>24,521</u>	<u>-</u>	<u>7,521</u>
Cash Flows from Capital and Related Financing Activities:			
Proceeds from the Sale of Capital Assets	-	24	-
Proceeds from Issuance Of Long-Term Obligations	-	16,615	-
Proceeds from Issuance of Bonds	-	-	50,898
Principal Received on Capital Leases	351	-	-
Payments for Capital Acquisitions	(2,260)	(16,134)	-
Payments of Principal on Bonds Payable	-	(3,145)	(1,780)
Payments of Principal on Other Long- Term Obligations	(2,090)	(1,337)	(14)
Payments to Defease Bonds	-	-	(48,815)
Payments of Interest	<u>(8,166)</u>	<u>(1,403)</u>	<u>(4,435)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(12,165)</u>	<u>(5,380)</u>	<u>(4,146)</u>
Cash Flows from Investing Activities:			
Receipts of Interest	<u>2,958</u>	<u>156</u>	<u>452</u>
Net Cash Provided by Investing Activities	<u>2,958</u>	<u>156</u>	<u>452</u>
Net Increase in Cash and Cash Equivalents	7,659	3	2,855
Cash and Cash Equivalents - October 1	<u>28,876</u>	<u>4,468</u>	<u>7,405</u>
Cash and Cash Equivalents - September 30	<u>\$ 36,535</u>	<u>\$ 4,471</u>	<u>\$ 10,260</u>

CITY OF LONG BEACH
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

City of Long Beach
Business-Type Activities
Tidelands Fund Segments
Statement of Cash Flows
For the Fiscal Year Ended September 30, 2006
(In Thousands)
(Continued)

RECONCILIATION OF OPERATING
INCOME (LOSS) TO NET CASH PROVIDED BY
(USED FOR) OPERATING ACTIVITIES

	<u>Tideland Operating</u>	<u>Marina</u>	<u>Rainbow Harbor Area</u>
Operating Income (Loss)	\$ (19,001)	\$ 2,945	\$ (6,075)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used for)			
Operating Activities:			
Depreciation and Amortization Expense	10,452	1,832	3,751
Other Income (Loss)	701	120	(11)
(Increase) Decrease in Accounts Receivable, Net	(870)	95	3
Increase in Amounts Due from			
Other Governments	(213)	-	-
Increase in Accounts Payable	394	210	1,349
Increase in Accrued Wages Payable	114	23	7
Increase in Amounts Due to Other Funds	-	16	4
Increase (Decrease) in Deferred Revenues	770	(49)	-
Increase (Decrease) in Collections Held in Trust	(2)	35	-
Total Adjustments	<u>11,346</u>	<u>2,282</u>	<u>5,103</u>
Net Cash Provided by (Used for)			
Operating Activities	<u>\$ (7,655)</u>	<u>\$ 5,227</u>	<u>\$ (972)</u>

CITY OF LONG BEACH
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

The City also conducts Business-type services that provide natural gas water, airport, refuse collection, sewer and towing services. Segment information for the Business-type activities funds at September 30, 2006, and for the fiscal year then ended, are as follows (in thousands):

<u>Business-Type Activities Major Activities</u>	<u>Gas</u>	<u>Water</u>	<u>Solid Waste Management</u>	<u>Tidelands</u>	<u>Tideland Oil Revenue</u>	<u>Harbor</u>	<u>Total Major Funds</u>
Operating Revenues	\$ 107,481	\$ 66,074	\$ 78,173	\$ 72,115	\$ 266,985	\$ 353,294	\$ 944,122
Depreciation Expense	3,242	7,922	4,474	15,729	-	80,678	112,045
Operating Income (Loss)	7,453	5,093	8,481	(22,223)	2,500	192,288	193,592
Non-Operating Income (Expense)	5,405	(691)	373	(7,856)	7	(26,369)	(29,131)
Transfers Net	(17,002)	-	(1,258)	37,589	(18,163)	(14,222)	(13,056)
Change in Net Assets	(4,144)	7,036	7,596	7,510	(15,656)	153,995	156,337
Capital Assets:							
Additions	(10,396)	(19,020)	-	(18,408)	-	(82,512)	(130,336)
Deletions	(441)	(213)	(7)	24	-	(1,392)	(2,029)
Net Working Capital	4,748	8,935	59,013	14,028	42,152	521,692	650,568
Total Assets	90,733	271,786	133,141	464,506	391,606	3,222,775	4,574,547
Bonds and Other Long-Term Liabilities Payable from							
Operating Revenues	13,243	36,054	108,657	213,797	325,410	1,096,107	1,793,268
Total Net Assets	\$ 63,711	\$ 225,551	\$ 11,379	\$ 224,188	\$ 42,152	\$ 1,982,146	\$ 2,549,127

Included in non-operating income for the Solid Waste Management Enterprise Fund are operating grants totaling \$1,126,000 received for the recycling program during fiscal year September 30, 2006.

<u>Business-Type Activities Non-major Activities</u>	<u>Sewer</u>	<u>Airport</u>	<u>Towing</u>	<u>Subsidence</u>	<u>Total Nonmajor Activities</u>	<u>Total Business-Type Activities</u>
Operating Revenues	\$ 9,244	\$ 24,796	\$ 7,773	\$ -	\$ 41,813	\$ 985,935
Depreciation Expense	1,233	3,737	9	-	4,979	117,024
Operating Income (Loss)	1,507	326	(884)	-	949	194,541
Non-Operating Income (Expense)	355	4,240	157	1,379	6,131	(23,000)
Transfers Net	-	-	-	-	-	(13,056)
Change in Net Assets	1,862	8,581	(727)	1,379	11,095	167,432
Current Capital Contributions (net)	-	2,739	-	-	2,739	2,739
Capital Assets:						
Additions	(1,291)	(9,187)	-	-	(10,478)	(140,814)
Deletions	(12)	-	-	-	(12)	(2,041)
Net Working Capital	9,627	15,101	1,734	(8,114)	18,348	668,916
Total Assets	53,218	108,997	1,997	157,977	322,189	4,896,736
Bonds and Other Long-Term Liabilities Payable from						
Operating Revenues	-	15,263	-	-	15,263	1,808,531
Total Net Assets	\$ 52,247	\$ 90,941	\$ 1,881	\$ 149,863	\$ 294,932	\$ 2,844,059
Total Business Activities Net Assets						\$ 2,844,059
Internal Service Funds Consolidation						(14,678)
Net Assets of Business-Type Activities						\$ 2,829,381

**CITY OF LONG BEACH
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2006**

NOTE 18 – SOUTHEAST RESOURCE RECOVERY FACILITY

The Southeast Resource Recovery Facility (SERRF) Authority was formed as a joint powers authority between the City of Long Beach and Los Angeles County Sanitation District Number 2 in December, 1984. Subsequent to SERRF's formation, lease revenue bonds were issued to construct a waste-to-energy facility, and contracts for the design, construction and demonstration of a plant were executed and completed. Subsequent complex contractor litigation ensued and was settled in 1994.

A final settlement to the contractor litigation provided that the City would receive \$6 million in cash and approximately \$10 million over a 20 year period in monthly installments which began in 1999. Additionally, a \$6 million payment from the present operator for future improvements has been accounted for as contributed capital. The long-term portion of future payments receivable from the former contractor of approximately \$10 million has been accounted for as a receivable and deferred revenue. The long-term receivable at September 30, 2006 is \$5,637,000 with the current portion recognized as revenue during the fiscal year aggregating \$501,000.

In October 1995 the lease was revised since the SERRF Authority refunded the 1985, 1985-1 and 1986 bond issues with the SERRF 1995 Revenue Bond issue. The lease payment was equal to debt service payments with a maximum annual payment of \$25,000,000.

In October 2003, the lease was again revised since the SERRF Authority refunded the 1995 Bonds with the 2003 Southeast Resource Recovery Facility Authority Bonds in the amount of \$120,235,000. Base rental payments are calculated to be sufficient to pay the principal and interest of the Series 2003 Bonds when due.

CITY OF LONG BEACH
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

City of Long Beach
Solid Waste Management Fund and Southeast Resource Recovery
Facility (SERRF) Joint Powers Authority
Consolidating Condensed Statement of Net Assets (Deficit)
September 30, 2006
(In Thousands)

	Solid Waste Management Fund				Eliminations	Consolidated
	Refuse	SERRF	Sub-Total	SERRF Authority	Debit (Credit)	Solid Waste Management Fund
ASSETS						
Current Assets:						
Pooled Cash and Cash Equivalents	\$ 21,722	\$ 32,058	\$ 53,780	\$ -	\$ -	\$ 53,780
Receivables:						
Accounts Receivable	2,167	7,486	9,653	-	-	9,653
Due from Other Governments	498	371	869	-	-	869
Capital Leases Receivable-Current	-	-	-	6,540	(6,540)	-
Allowance for Receivables	(240)	(51)	(291)	-	-	(291)
Total Current Asset	24,147	39,864	64,011	6,540	(6,540)	64,011
Restricted Assets:						
Pooled Cash and Cash Equivalents	-	-	-	650	-	650
Non-Pooled Investments	-	-	-	11,718	-	11,718
Accounts Receivable	-	-	-	1,567	(1,567)	-
Total Restricted Assets	-	-	-	13,935	(1,567)	12,368
Noncurrent Assets:						
Noncurrent Receivables:						
Capital Lease Receivable	-	-	-	101,155	(101,155)	-
Other Noncurrent Receivables	-	5,637	5,637	-	-	5,637
Capital Assets:						
Land and Other Capital Assets not being Depreciated	-	7,366	7,366	-	-	7,366
Capital Assets net of Accumulated Depreciation	120	43,639	43,759	-	-	43,759
Other Assets-Long-Term	-	2,462	2,462	973	(3,435)	-
Total Noncurrent Assets	120	59,104	59,224	102,128	(104,590)	56,762
Total Assets	24,267	98,968	123,235	122,603	(112,697)	133,141
LIABILITIES						
Current Liabilities Payable from Current Assets:						
Accounts Payable	1,675	3,993	5,668	-	1,567	4,101
Accrued Wages	234	9	243	-	-	243
Accrued Interest Payable	7	-	7	-	-	7
Due to Other Funds	116	4	120	-	-	120
Collections Held in Trust	503	24	527	-	-	527
Other Long-Term Obligations-Current	-	6,540	6,540	-	6,540	-
Total Current Liabilities	2,535	10,570	13,105	-	8,107	4,998
Current Liabilities Payable from Restricted Assets:						
Accrued Interest Payable	-	-	-	1,567	-	1,567
Bonds Payable Due Within One Year	-	-	-	6,540	-	6,540
Total Liabilities Payable from Restricted Assets	-	-	-	8,107	-	8,107
Noncurrent Liabilities:						
Deferred Revenues	-	5,637	5,637	-	-	5,637
Deferred Credits and Other Deferred Liabilities	-	973	973	2,462	3,435	-
Obligations Under Capital Leases	-	101,155	101,155	-	101,155	-
Bonds Payable	-	-	-	101,155	-	101,155
Unamortized Discount/Deferred cost	-	-	-	1,865	-	1,865
Total Noncurrent Liabilities	-	107,765	107,765	105,482	104,590	108,657
Total Liabilities	2,535	118,335	120,870	113,589	112,697	121,762
NET ASSETS (DEFICIT)						
Investment in Capital Assets, Net of Related Debt	120	(55,201)	(55,081)	-	3,354	(58,435)
Restricted for:						
Debt Service	-	-	-	11,706	-	11,706
Capital Projects	-	-	-	650	-	650
Unrestricted	21,612	35,834	57,446	(3,342)	(3,354)	57,458
Total Net Assets (Deficit)	\$ 21,732	\$ (19,367)	\$ 2,365	\$ 9,014	\$ -	\$ 11,379

CITY OF LONG BEACH
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

City of Long Beach
Solid Waste Management Fund and Southeast Resource Recovery
Facility (SERRF) Joint Powers Authority
Consolidating Condensed Statement of Revenues, Expenses and
Changes in Fund Net Assets (Deficit)
For the Fiscal Year Ended September 30, 2006
(In Thousands)

	Solid Waste Management Fund			SERRF Authority	Eliminations Debit (Credit)	Consolidated Solid Waste Management Fund
	Refuse	SERRF	Sub- Total			
Operating Revenues:						
Fees, Concessions and Rentals	\$ -	\$ -	\$ -	\$ 5,353	\$ 5,353	\$ -
Charges for Services	32,968	45,205	78,173	-	-	78,173
Total Operating Revenues	<u>32,968</u>	<u>45,205</u>	<u>78,173</u>	<u>5,353</u>	<u>5,353</u>	<u>78,173</u>
Operating Expenses:						
Personal Services	10,241	420	10,661	-	-	10,661
Maintenance and Other Operations	22,784	31,517	54,301	-	-	54,301
Rental Expense	-	5,353	5,353	-	(5,353)	-
Bad Debt	256	-	256	-	-	256
Depreciation	56	4,418	4,474	-	-	4,474
Total Operating Expenses	<u>33,337</u>	<u>41,708</u>	<u>75,045</u>	<u>-</u>	<u>(5,353)</u>	<u>69,692</u>
Operating Income (Loss)	<u>(369)</u>	<u>3,497</u>	<u>3,128</u>	<u>5,353</u>	<u>-</u>	<u>8,481</u>
Non-Operating Income (Expense):						
Interest Income	737	1,099	1,836	588	-	2,424
Interest Expense	-	-	-	(5,012)	-	(5,012)
Gain on Disposition of Capital Assets	(7)	-	(7)	-	-	(7)
Operating Grants	1,126	-	1,126	-	-	1,126
Other Income (Expense)	1,881	501	2,382	(540)	-	1,842
Total Non-Operating Income (Expense)	<u>3,737</u>	<u>1,600</u>	<u>5,337</u>	<u>(4,964)</u>	<u>-</u>	<u>373</u>
Income Before Contributions and Transfers	<u>3,368</u>	<u>5,097</u>	<u>8,465</u>	<u>389</u>	<u>-</u>	<u>8,854</u>
Transfers:						
Transfers Out	-	(1,258)	(1,258)	-	-	(1,258)
Change in Net Assets	<u>3,368</u>	<u>3,839</u>	<u>7,207</u>	<u>389</u>	<u>-</u>	<u>7,596</u>
Net Assets (Deficit) - October 1	<u>18,364</u>	<u>(23,206)</u>	<u>(4,842)</u>	<u>8,625</u>	<u>-</u>	<u>3,783</u>
Net Assets (Deficit) - September 30	<u>\$ 21,732</u>	<u>\$ (19,367)</u>	<u>\$ 2,365</u>	<u>\$ 9,014</u>	<u>\$ -</u>	<u>\$ 11,379</u>

CITY OF LONG BEACH
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

City of Long Beach
Solid Waste Management Fund and Southeast Resource Recovery
Facility (SERRF) Joint Powers Authority
Consolidating Statement of Cash Flows
For the Fiscal Year Ended September 30, 2006
(In Thousands)

<u>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</u>	<u>Solid Waste Management Fund</u>			<u>SERRF Authority</u>	<u>Eliminations Increase (Decrease)</u>	<u>Consolidated Solid Waste Management Fund</u>
	<u>Refuse</u>	<u>SERRF</u>	<u>Sub- Total</u>			
Cash Flows from Operating Activities:						
Receipts from Customers	\$ 32,525	\$ 41,880	\$ 74,405	\$ -	\$ -	\$ 74,405
Receipts from Capital Lease	-	-	-	4,532	(4,532)	-
Payments for Employee Salaries	(10,207)	(420)	(10,627)	-	-	(10,627)
Payments for Goods and Services	(22,109)	(35,755)	(57,864)	-	4,532	(53,332)
Other Income (Expense)	1,882	501	2,383	(540)	-	1,843
Net Cash Provided by Operating Activities	2,091	6,206	8,297	3,992	-	12,289
Cash Flows from Non-Capital Financing Activities:						
Operating Grants Received from Other Governments	865	-	865	-	-	865
Transfers Out	-	(1,258)	(1,258)	-	-	(1,258)
Net Cash Provided by (Used for) Non-Capital Financing Activities	865	(1,258)	(393)	-	-	(393)
Cash Flows from Capital and Related Financing Activities:						
Payments of Principal on Bonds Payable	-	-	-	(6,355)	-	(6,355)
Payments of Principal on Other Long- Term Obligations	-	(6,355)	(6,355)	-	6,355	-
Payments of Interest	-	-	-	(4,813)	-	(4,813)
Net Cash Provided by (Used for) Capital and Related Financing Activities	-	(6,355)	(6,355)	(11,168)	6,355	(11,168)
Cash Flows from Investing Activities:						
Proceeds from the Sale of Investments	-	-	-	(273)	-	(273)
Principal Received under Capital Lease	-	-	-	6,355	(6,355)	-
Receipts of Interest	736	1,100	1,836	588	-	2,424
Net Cash Provided by (Used for) Investing Activities	736	1,100	1,836	6,670	(6,355)	2,151
Net Increase (Decrease) in Cash and Cash Equivalents	3,692	(307)	3,385	(506)	-	2,879
Cash and Cash Equivalents - October 1	18,030	32,365	50,395	1,156	-	51,551
Cash and Cash Equivalents - September 30	\$ 21,722	\$ 32,058	\$ 53,780	\$ 650	\$ -	\$ 54,430

**CITY OF LONG BEACH
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2006**

City of Long Beach
Solid Waste Management Fund and Southeast Resource Recovery
Facility (SERRF) Joint Powers Authority
Consolidating Statement of Cash Flows
For the Fiscal Year Ended September 30, 2006
(In Thousands)
(Continued)

<u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES</u>	<u>Solid Waste Management Fund</u>			<u>SERRF Authority</u>	<u>Eliminations Increase (Decrease)</u>	<u>Consolidated Solid Waste Management Fund</u>
	<u>Refuse</u>	<u>SERRF</u>	<u>Sub- Total</u>			
Operating Income (Loss)	\$ (369)	\$ 3,497	\$ 3,128	\$ 5,353	\$ -	\$ 8,481
Adjustments to Reconcile Operating Income to Net Cash Provided by						
Operating Activities:						
Depreciation and Amortization Expense	56	4,418	4,474	-	-	4,474
Other Income (Expense)	1,882	501	2,383	(540)	-	1,843
(Increase) Decrease in Accounts Receivable, Net	(176)	(3,142)	(3,318)	74	(74)	(3,318)
Increase in Amounts Due from						
Other Governments	-	(142)	(142)	-	-	(142)
(Increase) Decrease in Deferred Charges	-	895	895	-	(895)	-
Increase in Accounts Payable	675	300	975	-	74	1,049
Increase in Accrued Wages Payable	19	-	19	-	-	19
Increase in Amounts Due to Other Funds	15	-	15	-	-	15
Decrease in Deferred Revenues	-	(42)	(42)	-	-	(42)
Increase (Decrease) in Deferred Credits	-	(80)	(80)	(895)	895	(80)
Increase (Decrease) in Collections Held in Trust	(11)	1	(10)	-	-	(10)
Total Adjustments	2,460	2,709	5,169	(1,361)	-	3,808
Net Cash Provided by Operating Activities	\$ 2,091	\$ 6,206	\$ 8,297	\$ 3,992	\$ -	\$ 12,289

NOTE 19 – OIL ABANDONMENT LIABILITY

As mentioned in Note 1, the City is required to administer certain tideland properties in trust for the State of California. Significant enterprise operations are conducted in this Tidelands Trust area of the City. Revenues received from the City's tidelands area Business-type operations are restricted by State law to tidelands-related purposes. The trust agreement provides for the establishment of separate operating funds to account for the various activities conducted in the City's tideland areas, as described on the following pages.

Tideland Oil Revenues

The City, acting as trustee for the State of California, utilizes contractors to oversee oil production on the tideland portion of the Wilmington Oil Field. Oil revenues (net of administrative and operating expenses, a \$1,000,000 fixed annual retention by the City, and the City's participation in the Optimized Waterflood Program Agreement as authorized by Chapter 941 of the State of California special legislative session of 1991) are remitted to the State of California. Funds retained by the City are restricted by law for tidelands-related purposes. Eligible purposes include expenses of the City's marinas, beaches, waterways, and its convention center.

**CITY OF LONG BEACH
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2006**

Annually, the City estimates the State's share in the costs of future abandonment and site clearance of the oil properties. At September 30, 2006 the State's total abandonment cost liability is \$324,800,000 increasing \$13,800,000 from fiscal year 2005. This estimate is based on the number and life of productive wells, general changes in the life of the oil field, and changes in oil prices. Prior to August 2005, the City withheld, on a monthly basis, the State's share in the abandonment liability and deposited the money in the City's Abandonment Reserve Fund. On August 31, 2005, the 2005-06 regular session of the California legislature passed Assembly Bill (AB) 137 which establishes the Oil Trust Fund in the State treasury and appropriates money in the fund to the State Lands Commission for specified costs associated with removal of oil and gas facilities. On March 1, 2006, as provided by AB 137, the City paid to the State Lands Commission all money, including both principal and interest, in the abandonment reserve fund. This amounted to \$98.7 million and was deposited in the State's Oil Trust Fund. At September 30, 2006, the Oil Trust Fund abandonment reserve is \$116,277,000.

The City's proprietary ownership interests in the Wilmington Oil Field bear a proportionate share of oil field abandonment costs. Such share is presently estimated at \$5,100,000 of which \$2,859,000 has been funded as of September 30, 2006 in the Upland Oil Properties Special Revenue Fund.

Subsidence

In accordance with State legislation, the City established a Reserve for Subsidence Contingencies to indemnify the City, State and Contractors for claims or costs arising from subsidence alleged to have resulted from oil operations. A maximum of \$40,000,000, plus accrued interest, was originally set-aside for this purpose. Under provisions of State law that allowed the State's contractors to substantially increase oil production, and for a period of eight years that ended December 31, 1999, the City's Tidelands Fund received 50% of the interest earnings on the Reserve for Subsidence Contingencies while the other 50% accrued to the Subsidence Fund. For a period of four years beginning January 1, 2000, 50% of the interest earnings was paid to the State of California while the other 50% accrued to the Subsidence Fund. After the expiration of the above provisions, 100% of the interest accrues to the Reserve for Subsidence. As of September 30, 2006, the reserve balance within the Subsidence Fund is \$157,977,000. As part of the adoption of the State's fiscal year 05 budget, 100% of this fund's interest earnings for calendar years 2004 and 2005 are eligible to be loaned to the City's General Fund, with repayment to commence in fiscal year 07, without interest, in equal annual installments of \$500,000 for up to 20 years. This action was taken to assist the City in making \$5 million contributions to the State in fiscal year 05 and fiscal year 06. At September 30, 2006, total loan to the City's General Fund amounts to \$8,114,000.

Harbor Operations

The City operates the Port of Long Beach. Leasing activities comprise a large portion of the Port's revenues. A provision for costs related to the abandonment and site clearance of oil properties purchased in March 1994 approximates \$18,300,000 as of September 30, 2006. A provision for the long-term abandonment costs in the amount of \$18,300,000 and \$17,700,000 has been recorded as of September 30, 2006 and 2005, respectively, as a long-term obligation. Estimates of abandonment costs are reviewed annually, and adjusted to reflect modifications in abandonment practices, number and life of productive wells,

CITY OF LONG BEACH
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

varying abandonment expenses, general changes in the life of the oil field and changes in oil price levels.

NOTE 20 – INVESTMENT IN JOINT VENTURES

Intermodal Container Transfer Facility Joint Powers Authority (ICTF)

The City's Harbor Department and the Port of Los Angeles (Venturers) have entered into a joint venture agreement to form the Intermodal Container Transfer Facility Joint Powers Authority (ICTF) to finance and construct a facility to transfer cargo containers between trucks and railroad cars. The facility is leased to Southern Pacific Transportation Company, now merged with Union Pacific Railroad (tenant). The facility has been fully developed by the tenant who has assumed operational responsibility for the facility. The Venturers share net income and equity distributions from ICTF equally. A condensed, audited balance sheet as of June 30, 2006 and 2005, and statement of income and Venturer's equity for the year then ended are as follows:

ICTF
Condensed Balance Sheet
June 30, 2006 and 2005
(In Thousands)

	2006	2005
Current Assets	\$ 14,170	\$ 8,942
Property and Equipment	3,275	3,383
Total Assets	<u>\$ 17,445</u>	<u>\$ 12,325</u>
Current Liabilities	\$ 3,524	\$ 8
Venturer's Equity:		
Port of Long Beach Harbor Department	7,133	5,986
Port of Los Angeles	6,788	6,331
Total Venturer's Equity	<u>13,921</u>	<u>12,317</u>
Total Liabilities and Venturers' Equity	<u>\$ 17,445</u>	<u>\$ 12,325</u>

Condensed Statement of Income and Venturers' Equity
for the Years Ended June 30, 2006 and 2005
(In Thousands)

	2006	2005
Operating Revenues	\$ 8,523	\$ 7,050
Operating Expenses	(108)	(108)
Operating Income	8,415	6,942
Interest Income	189	143
Net Income	8,604	7,085
Venturers' equity, July 1	12,317	10,232
Cash Disbursement to Venturers	(7,000)	(5,000)
Venturers' Equity, June 30	<u>\$ 13,921</u>	<u>\$ 12,317</u>

**CITY OF LONG BEACH
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2006**

Pursuant to an Indenture of Trust dated November 1, 1984, ICTF issued \$53,900,000 of 1984 Series A bonds on behalf of the tenant to construct the facility. On May 1, 1989, ICTF issued \$52,300,000 of 1989 Series A Refunding Revenue Bonds on behalf of the tenant to advance refund the 1984 Series A bonds. The bonds are payable solely from payments by the tenant under a long-term lease agreement for use of the facility. The nature of the bonds is such that the long-term indebtedness is that of the tenant and not of ICTF, the City's Harbor Department or the Port of Los Angeles.

Pursuant to an Indenture of Trust, dated as of October 1, 1999, ICTF issued its Intermodal Container Transfer Refunding Revenue Bonds, 1999 Series A (the 1999 Bonds). In connection with the issuance of the 1999 Bonds, Union Pacific Railroad Company and ICTF entered into a Second Amended and Restated Installment Sale and Security Agreement, dated as of October 1, 1999. The proceeds of the 1999 Bonds, together with certain other funds, were used by ICTF to redeem all of the Intermodal Container Transfer Facility Refunding Revenue Bonds, 1989 Series A then outstanding.

NOTE 21 – DEFERRED COMPENSATION

The City offers all of its employees a deferred compensation plan (Plan) created in accordance with Internal Revenue Code, Section 457. The Plan permits employees to defer a portion of their salary until future years. All amounts of compensation deferred under the Plan, all property and rights purchased with those amounts, and all income attributable to those amounts are held in such trust accounts for the exclusive benefit of the City employee participants and their beneficiaries.

While the City has full power and authority to administer and to adopt rules and regulations for the Plan, all investment decisions under the Plan are the responsibility of the Plan participants. The City has no liability for losses under the Plan, but does have the duty of due care that would be required of an ordinary prudent investor. The accumulated assets of the Plan are not required to be reported in the accompanying basic financial statements.

If Plan participants retire or terminate service with the City, they may be eligible to receive payments under the Plan in accordance with provisions thereof. In the event of serious financial emergency, the City may approve, upon request, withdrawals from the Plan by the participants, along with their allocated contributions.

**CITY OF LONG BEACH
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2006**

NOTE 22 – COMMITMENTS AND CONTINGENCIES

Commitments

At September 30, 2006, business-type fund commitments for construction projects and for purchases of goods and services are as follows (in thousands):

Gas	\$ 305
Water	7,285
Sewer	4,110
Airport	3,538
Solid Waste Management	37
Towing	3
Tidelands	7,559
Harbor	89,321
Total	<u>\$112,158</u>

At September 30, 2006, the City's commitments for governmental and Internal Service Funds activity construction projects and for the purchase of goods and services aggregated \$16,579,000 and \$9,429,000, respectively.

The component unit, Long Beach Transportation Company has \$11,486,000 in purchase commitments at June 30, 2006, mainly for the purchase of new buses and an advanced communication system.

Health Insurance

The City contracts with an insurance company to provide group health insurance to City employees. In an effort to maintain rates at acceptable levels, the City deposited with the insurance company certain securities valued at approximately \$5,000,000 to cover terminal liability claims. The securities are included in the City's pooled cash and investments and all interest earned on the securities accrues to the City. In the event of the City terminates its contract with the insurance company, the unneeded portion of the securities will be returned to the City.

Self Insurance

The City is the subject of numerous claims seeking recovery of monetary amounts. Such claims generally occur in the normal course of business and arise from several causes of action including general liability, employment related matters, alleged violations of civil rights, recovery of questioned grant costs and other incidental issues.

As stated in Note 14, the City is self-insured for its workers' compensation and liability claims. As claims are made against the City, they are routinely evaluated and appropriate accrued liabilities are recorded. Certain of these claims may ultimately reach the trial level and could result in judgments against the City. While the ultimate adverse effect, if any, of claims and judgments against the City cannot be estimated with certainty, it is the opinion of management, based upon consultation with the City Attorney and outside legal counsel as applicable, that such judgments against the City will not have a material adverse effect on the City's financial position beyond that already accrued for in the basic financial statements.

CITY OF LONG BEACH
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

Environmental Remediation

The City's Harbor Department purchased 725 acres of property in the Harbor District in 1994. The property contains soil requiring remediation of environmentally hazardous materials. The remediation is required only on the portion of the land that the Harbor Department chooses to develop. To the extent that such remediation is necessary, the Harbor Department's liability is mitigated by provisions in the purchase agreement that make Union Pacific Resource Company (UPRC), the seller, responsible for a portion of the remediation costs. UPRC was acquired by Anadarko Petroleum Co. (APC) who assumed this liability in accordance with the original purchase agreement. APC's responsibility is limited to a period not to exceed fifteen years and a maximum amount of \$112,500,000 according to the following table:

<u>Site Remediation Cost</u>		<u>Allocation:</u>	
		<u>APC</u>	<u>Harbor</u>
First	\$ 50 million	\$50,000,000	\$ ---
Second	\$ 50 million	25,000,000	25,000,000
Third	\$ 50 million	12,500,000	37,500,000
Fourth	\$ 50 million	25,000,000	25,000,000
All Additional Costs		---	100%
Maximum Liability		<u>\$112,500,000</u>	

Currently, the Harbor Department has developed 131 acres and plans to develop 160 additional acres.

In September 1995, the City assumed responsibility for approximately 100 acres of land from the City's Water Department which includes potential future costs related to remediation of hazardous materials on the properties. No estimated amount is available since designs for the project designated for this land has not been completed.

Alameda Corridor Development Project

In December 1994, the City's Harbor Department and the Harbor Department of the City of Los Angeles (collectively the Ports) executed the purchase of the rights-of-way needed for the development of the Alameda Corridor Project (the Project), which is a rail transportation corridor between the Ports and the central Los Angeles area. The Ports purchased these rights, sharing the cost on a 50/50 basis, from the three railroad companies then serving the Ports: Union Pacific Railroad Company, Southern Pacific Railroad Company, and Atchison, Topeka and Santa Fe Railroad Companies. After the purchase, Southern Pacific merged into Union Pacific and Atchison, Topeka, and Santa Fe merged with Burlington Northern to form the Burlington Northern Santa Fe.

The total purchase is comprised of the right-of-way property from the three former railroad companies and a drill track from Southern Pacific to provide an additional right-of-way to access local businesses along the Project. As of September 30, 2006 and \$207,823,000 for both years.

**CITY OF LONG BEACH
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2006**

Construction of the Project began in 1997 and it was completed in April 2002. Funding for the Project came from federal, state, and local sources, and from issuance of debt. Some of the benefits derived from the project are the consolidation of the railroad services onto a single set of rail lines, the improvement of the rail transportation conditions around the Ports, the securing of efficient and competitive service to and from the Ports, and the increase in public safety along the route on which Port related traffic occurs. These benefits will extend to other governmental entities by allowing them to utilize the right-of way.

Repayment to the Ports for their investments in the right-of-way and for any advances provided to the Project will occur after the Project has generated revenues sufficient to retire all debt and to fund a maintenance reserve.

Potential Obligations related to the Alameda Corridor Transportation Authority

The Alameda Corridor Use and Operating Agreement was executed by the City's Harbor Department, the Harbor Department of the City of Los Angeles (Port of Los Angeles), the Alameda Corridor Transportation Authority (ACTA), and the Burlington Northern Santa Fe and Union Pacific Railroads. This Agreement provides for a payment of funds, known as a "Shortfall Advance," to be made, under certain circumstances, to ACTA by the City's Harbor Department and the Port of Los Angeles. Revenues generated by Use Fees and Container Charges, paid by the railroads, will be used to pay debt service on ACTA financing, to establish and maintain a reserve account, and to pay ACTA's reasonable expenses relating to administration of the rail corridor.

To the extent that the revenues from use and container charges are not sufficient to meet ACTA's obligations, the City's Harbor Department and the Port of Los Angeles have agreed to advance the funds necessary to make up the difference. This obligation began after completion of the Corridor project and is limited to a total of 40% of the total annual required amount, with the Harbor Department and the Port of Los Angeles each responsible for one-half, or 20% of the required amount.

ACTA's latest Notice of Estimated Shortfall Advances and Reserve Accounting Funding (the Notice) was transmitted to the Harbor Department on March 24, 2006. It is anticipated that there will be differences between estimates and actual results; the differences may be material. The projected shortfall based on the Notice submitted by ACTA for the fiscal year ending June 30, 2007 is expected to be approximately \$2.1 million, which ACTA indicates will be covered by other available resources. If ACTA is unable to cover the projected shortfall, both the Harbor Department and the Port of Los Angeles, could each be obligated to pay half of the shortfall. Any Shortfall Advance made by the Harbor Department and the Port of Los Angeles is reimbursable, with interest, by ACTA. Although ACTA has not provided an update to its projection of Shortfall Advances beyond the fiscal year ending June 30, 2007, ACTA indicates that it does not anticipate any future Shortfall Advance payments will be required. Estimates included in the Notice are dependent upon the accuracy of the assumptions used by ACTA in its formulation. In accordance with the special initial funding provisions contained in Section 7.4(g) of the Use and Operating Agreement, ACTA and the Ports are required to fund a Reserve Account for these amounts.

**CITY OF LONG BEACH
NOTES TO BASIC FINANCIAL STATEMENTS
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As such, as of September 30, 2006 and 2005, the Harbor Department has funded \$82,402,000 and \$77,747,000, respectively, of this required reserve and these amounts are included within restricted net assets in the Harbor Fund.

Environmental Mitigation Costs

The City's Harbor Department disbursed \$39,400,000 in fiscal 1997 to secure environmental mitigation credits. An agreement between the City's Harbor Department, the Harbor Department of the City of Los Angeles, and several federal and state regulatory agencies provided for the City's Harbor Department's purchase of land located within the wetlands restoration project at the Bolsa Chica Wetlands in Orange County, California. The land was transferred to the State in return for environmental mitigation credits to allow for the construction of up to 267 acres of landfill in the outer harbor area. During fiscal year 2006, the Harbor Department acquired additional \$11,400,000 of available environmental mitigation credits.

The cost incurred in the acquisition of the land has been classified as a non-current asset. As of September 30, 2006, the Harbor Department has completed landfills that required the utilization of \$6,522,000 of the available credits. No environmental mitigation credits were utilized in fiscal year 2006. The balance of environmental mitigation costs will be adjusted in the future as landfill credits are used for port development. The balance of the Environmental Mitigation Credits as of September 30, 2006 and 2005 is \$44,278,000 and \$32,878,000, respectively.

Gerald Desmond Bridge Matching Contribution

The City's Harbor Department is actively pursuing the replacement of the Gerald Desmond Bridge. The total cost to replace the bridge is estimated at \$800,000,000. The Harbor Department anticipates that funding of this project will come primarily from federal and State sources, some of which has already been committed. In order to receive this funding, the Harbor Department is required to have a matching amount.

In conjunction with the matching requirement, the Harbor Department has set aside \$54,340,000 and \$37,821,000 to provide for the local matching requirement associated with \$320,785,000 and \$116,100,000 in grants received as of June 30, 2006 and 2005, respectively. Additionally, in anticipation of the matching requirements related to future expected funding to cover the total estimated cost of the bridge, the Harbor Department has set aside and earmarked funds totaling \$25,861,000 and \$37,849,000 as of September 30, 2006 and 2005, respectively, to provide the expected 10% local match related to future grants.

Green Port Infrastructure Commitment

In January 2005, the City's Harbor Department adopted a wide-ranging Green Port Policy that greatly expanded its commitment to sustain the environment by establishing new guidelines for Port current operations and future development. Key provisions include protection of the community from the harmful impacts of Port operations and employment of state-of-the-art technology to minimize environmental impacts. Air emissions from ships at berth account for over one-third of all vessel air emissions. Providing electrification reduces emissions significantly. With electrification, or "cold ironing", vessels can shut down their auxiliary engines, while at berth, and plug into shore-side electric substations. Although the

**CITY OF LONG BEACH
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2006**

cost of adding electrical infrastructure is substantial, the Harbor Department has successfully negotiated with several tenants to modify their berthing arrangements and has set aside funds to help funding the infrastructural changes. The Green Port Infrastructure Reserve balance, as of September 30, 2006 and 2005, is \$104,026,000 and \$100,331,000, respectively. This balance consists of the \$100,000,000 initial contribution plus interest earnings.

Pike Public Improvements

In fiscal year 2002, the City issued special assessment debt under the authority of the Mello-Roos Community Facilities Act for public improvements, mainly a parking facility, in the Pike Development Project area (Note 9). Although the debt does not constitute an indebtedness of the City, in order to facilitate such financing, the parking facility was sublet to the City for the purposes of issuance of the Mello-Roos Bonds pursuant to a City sublease. According to the sublease, the City is subject to an annual calculated lease payment up to \$1,169,000, plus net revenues from certain other Pike area parking operations, in the event the Pike garage does not generate sufficient net revenue to make bond payments.

CITY OF LONG BEACH
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

City of Long Beach
Required Supplementary Information
CalPERS Analysis of Funding Progress
(Unaudited)
(In thousands)

<u>June 30</u> <u>Actuarial</u> <u>Valuation Date</u>	<u>Entry Age</u> <u>Normal</u> <u>Accrued</u> <u>Liability</u>	<u>Actuarial</u> <u>Value of</u> <u>Assets</u>	<u>Excess</u> <u>Funded</u> <u>(Deficit/</u> <u>Unfunded)</u> <u>Assets</u>	<u>Funded</u> <u>Status</u>	<u>Annual</u> <u>Covered</u> <u>Payroll</u>	<u>Excess Funded</u> <u>(Deficit/</u> <u>Unfunded)</u> <u>Assets as a %</u> <u>of Covered</u> <u>Payroll</u>
<u>Miscellaneous Employees</u>						
2003	\$1,234,749	\$1,222,710	\$(12,039)	99.0%	\$192,004	(6.3)%
2004	1,310,060	1,256,773	(53,287)	95.9%	191,222	(27.9)%
2005	1,382,539	1,319,615	(62,924)	95.4%	186,580	(33.7)%
<u>Safety Employees</u>						
2003	\$1,212,393	\$1,257,639	\$45,246	103.7%	\$103,510	43.7%
2004	1,266,688	1,295,136	28,448	102.2%	102,845	27.7%
2005	1,314,223	1,353,870	39,647	103.0%	103,583	38.3%

See accompanying independent auditors' report.

CITY OF LONG BEACH
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

City of Long Beach
Required Supplementary Information

Public Agency Retirement System
Analysis of Funding Progress
(Unaudited)

Actuarial Valuation Date (1)	Actuarial Value of Assets	Actuarial Accrued Liabilities	Funded (Excess assets)	Funded Ratio	Annual Covered Payroll	Rate of Funded Liability to Annual <u>Covered</u> <u>Payroll</u>
1997	\$ 385,993	\$ 246,938	\$ 139,055	156%	\$13,985,230	0.99 %
1998	628,037	493,178	134,859	127%	14,636,213	0.92 %
1999	844,349	644,922	199,427	131%	16,239,480	1.23 %
2000	1,071,241	575,446	495,795	186%	15,124,582	3.28 %
2001	1,317,055	410,609	906,446	321%	10,697,767	8.47 %
2002	1,526,586	475,029	1,051,557	321%	8,472,945	12.41 %
2003	1,703,852	517,234	1,186,618	329%	8,504,901	13.95 %
2004	1,536,647	545,083	991,564	282%	8,265,983	12.00 %
2005	1,388,268	675,055	713,213	206%	7,697,497	9.27 %
2006	1,307,680	789,799	517,881	166%	7,927,910	6.53 %

(1) September 30 for 2005 and June 30 prior to 2005.

See accompanying independent auditors' report.

CAPITAL PROJECTS FUNDS

Capital Projects major fund budgetary information not provided in the basic financial statements is provided in this section.

General Capital Projects Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual (Non-GAAP Budgetary Basis)

Redevelopment Capital Projects Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit) – Budget and Actual (Non-GAAP Budgetary Basis)

City of Long Beach
General Capital Projects
Statement of Revenues, Expenditures and
Changes in Fund Balances -
Budget and Actual (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended September 30, 2006
(In Thousands)

	<u>Budgeted Amounts</u>		<u>Actual On</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Budgetary</u>	<u>with Final</u>
			<u>Basis</u>	<u>Budget -</u>
				<u>Favorable</u>
				<u>(Unfavorable)</u>
Revenues:				
Licenses and Permits	\$ 2,100	\$ 2,100	\$ 1,409	\$ (691)
Use of Money and Property	1,479	1,552	717	(835)
From Other Agencies	43,807	48,498	13,017	(35,481)
Other	-	50	51	1
Total Revenues	<u>47,386</u>	<u>52,200</u>	<u>15,194</u>	<u>(37,006)</u>
Expenditures:				
Capital Improvements	<u>79,164</u>	<u>87,219</u>	<u>36,931</u>	<u>50,288</u>
Total Expenditures	<u>79,164</u>	<u>87,219</u>	<u>36,931</u>	<u>50,288</u>
Excess of Revenues Over				
(Under) Expenditures	<u>(31,778)</u>	<u>(35,019)</u>	<u>(21,737)</u>	<u>13,282</u>
Other Financing Sources (Uses):				
Transfers In	4,680	8,406	11,571	3,165
Transfers Out	<u>(524)</u>	<u>(524)</u>	<u>(325)</u>	<u>199</u>
Total Other Financing				
Sources	<u>4,156</u>	<u>7,882</u>	<u>11,246</u>	<u>3,364</u>
Excess of Revenues and Other				
Sources Over (Under) Expenditures				
and Other Uses	<u>(27,622)</u>	<u>(27,137)</u>	<u>(10,491)</u>	<u>16,646</u>
Fund Balances - October 1, Budgetary Basis	23,412	23,412	23,412	-
Encumbrances - Beginning of the Year	<u>6,257</u>	<u>6,257</u>	<u>6,257</u>	<u>-</u>
Fund Balances - September 30, Budgetary Basis	<u>\$ 2,047</u>	<u>\$ 2,532</u>	<u>\$ 19,178</u>	<u>\$ 16,646</u>

See accompanying independent auditors' report.

City of Long Beach
Redevelopment Capital Projects
Statement of Revenues, Expenditures and
Changes in Fund Balances -
Budget and Actual (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended September 30, 2006
(In Thousands)

	<u>Budgeted Amounts</u>		<u>Actual On</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Budgetary</u>	<u>with Final</u>
			<u>Basis</u>	<u>Budget -</u>
				<u>Favorable</u>
				<u>(Unfavorable)</u>
Revenues:				
Property Taxes	\$ 51,722	\$ 51,722	\$ 63,406	\$ 11,684
Other Taxes	3,888	3,888	3,634	(254)
Licenses and Permits	-	-	179	179
Use of Money and Property	3,246	5,701	13,901	8,200
From Other Agencies	689	689	62	(627)
Other - Land Sales and Contributions	(903)	(903)	1,434	2,337
Other	(1,138)	(1,138)	2,145	3,283
Total Revenues	<u>57,504</u>	<u>59,959</u>	<u>84,761</u>	<u>24,802</u>
Expenditures:				
General Government	245	245	269	(24)
Community and Cultural	<u>170,874</u>	<u>198,912</u>	<u>94,930</u>	<u>103,982</u>
Total Current Expenditures	<u>171,119</u>	<u>199,157</u>	<u>95,199</u>	<u>103,958</u>
Debt Service:				
Principal	8,134	16,884	8,694	8,190
Interest	19,634	19,843	19,485	358
Fiscal Agent Fees	<u>136</u>	<u>136</u>	<u>144</u>	<u>(8)</u>
Total Expenditures	<u>199,023</u>	<u>236,020</u>	<u>123,522</u>	<u>112,498</u>
Excess of Revenues Over				
(Under) Expenditures	<u>(141,519)</u>	<u>(176,061)</u>	<u>(38,761)</u>	<u>137,300</u>
Other Financing Sources (Uses):				
Other Deferred Payments	-	-	220	220
Proceeds from Other Long-Term Obligations	3,625	38,670	37,500	(1,170)
Payments to Refunded Bond Escrow Agent	-	-	(36,135)	(36,135)
Transfers In	(1,034)	1,766	5,741	3,975
Transfers Out	<u>(31,419)</u>	<u>(31,419)</u>	<u>(7,162)</u>	<u>24,257</u>
Total Other Financing				
Sources (Uses)	<u>(28,828)</u>	<u>9,017</u>	<u>164</u>	<u>(8,853)</u>
Excess of Revenues and Other				
Sources Over (Under) Expenditures				
and Other Uses	<u>(170,347)</u>	<u>(167,044)</u>	<u>(38,597)</u>	<u>128,447</u>
Fund Balances - October 1, Budgetary Basis	249,027	249,027	249,027	-
Encumbrances - Beginning of the Year	<u>852</u>	<u>852</u>	<u>852</u>	<u>-</u>
Fund Balances - September 30, Budgetary Basis	<u>\$ 79,532</u>	<u>\$ 82,835</u>	<u>\$ 211,282</u>	<u>\$ 128,447</u>

See accompanying independent auditors' report.

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NONMAJOR SPECIAL REVENUE FUNDS

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable and nonexpendable trusts) that are restricted by law to expenditure for specified purposes.

The General Grants Fund was established to separately account for Federal, State and other agency grants related to general City operations.

The Health Fund was established to separately account for Federal/State and other revenues related to health care programs which the City operates in lieu of the County.

The Certified Unified Program Agency Fund was established by the City to account for services relating to hazardous waste material.

The Parking and Business Area Improvement Fund is used to account for special revenue received from businesses and property owners located within business improvement districts. Business Improvement Districts are self assessment districts created with the approval of affected businesses by City ordinance as allowed by State law. City of Long Beach business improvement districts are located in Belmont Shore, Bixby Knolls, designated hotel properties, Magnolia Industrial Area and Downtown. Self assessment revenues are used to provide safety, security, parking and marketing services in the areas.

The Special Advertising and Promotion Fund is required by the City's Municipal Code Section 3.64.100 to account for a portion of the transient occupancy tax revenue. The revenues are restricted for use to advertising, promotional, and public relations projects calling attention to the City.

The Upland Oil Properties Fund was established to account for all costs and revenues for the City's proprietary oil interests and for accumulating reserves to pay for the City's portion of well-abandonment and site-clearance liabilities.

The Belmont Shore Parking Meter Revenue Fund was established by City Ordinance C-6219 to account for parking revenues in the Belmont Shore area of Long Beach.

The Business Assistance Fund is used to account for the Redevelopment Agency monies used to fund commercial rehabilitation loans and rebates, business outreach and commercial and retail services, including business attraction, retention and expansion.

The Housing Assistance Fund is used to account for programs administered by the City's Housing Authority under regulations of the U.S. Department of Housing and Urban Development.

The Park Development Fund was established by City Ordinance C-6567 to account for developer fees to be used solely and exclusively for the purpose of funding park land acquisition and recreation improvements.

The Gasoline Tax Fund is used to account for revenues and expenditures of money apportioned under the Streets and Highways Code of the State of California. Expenditures may be made for any street-related purpose of the City's system of streets, including maintenance thereof.

The Transportation Fund is used to account for the City's share of a one percent sales tax collected by Los Angeles County under Proposition A (approved November 1980) and Proposition C (approved November 1990) to finance certain transportation projects.

City of Long Beach
Nonmajor Governmental Funds-Special Revenue Funds
Combining Balance Sheet
September 30, 2006
With Summarized Financial Information for 2005
(In Thousands)

	General Grants	Health	Certified Unified Program Agency	Parking and Business Area Improvement	Special Advertising and Promotion	Upland Oil Properties	Belmont Shore Parking Meter Revenue
ASSETS							
Pooled Cash and Cash Equivalents	\$ 1,870	\$ 1,332	\$ 312	\$ 712	\$ 1,763	\$ 4,286	\$ 635
Non-Pooled Cash and Cash Equivalents	-	1	-	-	-	-	24
Receivables:							
Accounts Receivable	48	587	52	96	816	2,075	-
Due from Other Governments	6,417	6,137	8	-	-	-	-
Allowance for Receivables	-	(398)	(93)	(51)	(150)	-	-
Other Assets-Current	-	1	-	-	-	-	-
Other Noncurrent Receivables	-	-	-	-	-	-	-
Total Assets	<u>\$ 8,335</u>	<u>\$ 7,660</u>	<u>\$ 279</u>	<u>\$ 757</u>	<u>\$ 2,429</u>	<u>\$ 6,361</u>	<u>\$ 659</u>
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts Payable	\$ 1,452	\$ 1,059	\$ 13	\$ 338	\$ 93	\$ 399	\$ 16
Accrued Wages	52	639	22	-	19	-	-
Due to Other Funds	4,922	2,030	11	-	9	-	-
Deferred Revenues	1,753	1,555	24	-	-	-	-
Deposits and Collections Held in Trust	145	100	56	-	18	85	-
Advances from Other Funds	-	2,000	-	-	-	-	-
Total Liabilities	<u>8,324</u>	<u>7,383</u>	<u>126</u>	<u>338</u>	<u>139</u>	<u>484</u>	<u>16</u>
Fund Balances:							
Reserved for:							
Encumbrances	-	22	-	-	54	-	7
Future Capital Projects/Transportation	-	-	-	-	-	-	-
Estimated Oil Field Abandonment Costs	-	-	-	-	-	3,495	-
Debt Service	-	-	-	-	-	-	200
Unreserved, Designated for:							
Subsequent Years' Appropriations	11	255	153	419	2,236	2,382	436
Unreserved, Undesignated							
Special Revenue Funds	-	-	-	-	-	-	-
Total Fund Balance	<u>11</u>	<u>277</u>	<u>153</u>	<u>419</u>	<u>2,290</u>	<u>5,877</u>	<u>643</u>
Total Liabilities and Fund balance	<u>\$ 8,335</u>	<u>\$ 7,660</u>	<u>\$ 279</u>	<u>\$ 757</u>	<u>\$ 2,429</u>	<u>\$ 6,361</u>	<u>\$ 659</u>

See accompanying independent auditors' report.

Business Assistance	Housing Assistance	Park Development	Gasoline Tax	Transportation	Totals	
					September 30, 2006	September 30, 2005
\$ 244	\$ 11,969	\$ 747	\$ 10,989	\$ 30,181	\$ 65,040	\$ 50,050
-	132	-	-	-	157	17
2	117	-	-	1	3,794	3,660
-	55	-	1,898	150	14,665	18,014
(2)	(88)	-	-	-	(782)	(581)
3	6	-	-	-	10	35
1,365	-	-	-	-	1,365	2,768
<u>\$ 1,612</u>	<u>\$ 12,191</u>	<u>\$ 747</u>	<u>\$ 12,887</u>	<u>\$ 30,332</u>	<u>\$ 84,249</u>	<u>\$ 73,963</u>
\$ 44	\$ 102	\$ -	\$ 1,236	\$ 5,928	\$ 10,680	\$ 11,649
19	82	-	-	14	847	793
9	41	-	303	7	7,332	5,945
1,509	9	-	5,127	-	9,977	5,747
2	1,690	-	16	-	2,112	3,062
-	2,900	-	-	-	4,900	4,900
<u>1,583</u>	<u>4,824</u>	<u>-</u>	<u>6,682</u>	<u>5,949</u>	<u>35,848</u>	<u>32,096</u>
5	3	-	1,229	3,595	4,915	3,911
-	-	-	4,976	20,788	25,764	26,549
-	-	-	-	-	3,495	3,136
-	-	-	-	-	200	200
24	10,264	747	-	-	16,927	10,971
-	(2,900)	-	-	-	(2,900)	(2,900)
<u>29</u>	<u>7,367</u>	<u>747</u>	<u>6,205</u>	<u>24,383</u>	<u>48,401</u>	<u>41,867</u>
<u>\$ 1,612</u>	<u>\$ 12,191</u>	<u>\$ 747</u>	<u>\$ 12,887</u>	<u>\$ 30,332</u>	<u>\$ 84,249</u>	<u>\$ 73,963</u>

City of Long Beach
Nonmajor Governmental Funds-Special Revenue Funds
Combining Statement of Revenues, Expenditures and
Changes in Fund Balances (Deficit)
For the Fiscal Year Ended September 30, 2006
With Summarized Financial Information for 2005
(In Thousands)

	General Grants	Health	Certified Unified Program Agency	Parking and Business Area Improvement	Special Advertising and Promotion	Upland Oil Properties
Revenues:						
Taxes:						
Sales	\$ -	\$ 2,458	\$ -	\$ -	\$ -	\$ -
Other Taxes	-	-	-	5,445	4,640	-
Licenses and Permits	-	3,064	815	-	758	-
Fines and Forfeitures	-	-	-	-	-	-
Use of Money and Property	75	-	23	13	35	21,481
From Other Agencies	22,405	27,524	-	-	-	-
Charges for Services	25	2,066	-	-	-	-
Other	-	173	1	-	148	-
Total Revenues	22,505	35,285	839	5,458	5,581	21,481
Expenditures:						
Current:						
Public Safety	18,955	-	-	-	-	-
Public Health	1,158	38,280	964	-	-	-
Community and Cultural	2,668	-	-	5,372	4,297	-
Public Works	428	-	-	-	-	-
Oil Operations	-	-	-	-	-	7,089
Total Current Expenditures	23,209	38,280	964	5,372	4,297	7,089
Capital Improvements	-	-	-	-	-	-
Debt Service:						
Principal	-	204	-	-	-	-
Interest	-	121	-	-	-	-
Debt Administration Fees	-	-	-	-	-	3
Total Expenditures	23,209	38,605	964	5,372	4,297	7,092
Excess of Revenues Over						
(Under) Expenditures	(704)	(3,320)	(125)	86	1,284	14,389
Other Financing Sources (Uses):						
Proceeds from Other Long-Term Obligations	-	-	-	-	-	-
Payment to Refunded Bond Escrow Agent	-	-	-	-	-	-
Transfers In	699	1,654	-	-	-	-
Transfers Out	-	-	-	-	(984)	(14,011)
Total Other Financing Sources (Uses)	699	1,654	-	-	(984)	(14,011)
Excess of Revenues and Other Sources Over						
(Under) Expenditures and Other Uses	(5)	(1,666)	(125)	86	300	378
Fund Balances (Deficit) - October 1	16	1,943	278	333	1,990	5,499
Fund Balances - September 30	\$ 11	\$ 277	\$ 153	\$ 419	\$ 2,290	\$ 5,877

See accompanying independent auditors' report.

Belmont Shore Parking Meter Revenue	Business Assistance	Housing Assistance	Park Development	Gasoline Tax	Transportation	Totals	
						September 30, 2006	September 30, 2005
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,458	\$ 2,482
-	-	-	-	-	-	10,085	6,537
-	2	-	471	-	-	5,110	6,139
-	-	-	-	-	-	-	6
484	65	309	35	222	1,033	23,775	19,114
-	593	67,717	-	11,455	15,418	145,112	122,256
-	-	-	-	-	-	2,091	2,012
-	177	344	-	-	54	897	2,511
484	837	68,370	506	11,677	16,505	189,528	161,057
-	-	-	-	-	-	18,955	7,914
-	-	-	-	-	-	40,402	36,909
180	1,689	59,752	43	-	-	74,001	72,364
-	-	-	-	-	15,813	16,241	12,376
-	-	-	-	-	-	7,089	6,164
180	1,689	59,752	43	-	15,813	156,688	135,727
-	-	-	-	11,726	-	11,726	4,883
145	-	-	-	-	-	349	365
67	-	-	-	-	-	188	153
-	-	-	-	-	-	3	112
392	1,689	59,752	43	11,726	15,813	168,954	141,240
92	(852)	8,618	463	(49)	692	20,574	19,817
-	-	-	-	-	-	-	3,587
-	-	-	-	-	-	-	(3,526)
-	99	-	-	-	-	2,452	3,001
-	-	-	(1,013)	-	(484)	(16,492)	(17,179)
-	99	-	(1,013)	-	(484)	(14,040)	(14,117)
92	(753)	8,618	(550)	(49)	208	6,534	5,700
551	782	(1,251)	1,297	6,254	24,175	41,867	36,167
\$ 643	\$ 29	\$ 7,367	\$ 747	\$ 6,205	\$ 24,383	\$ 48,401	\$ 41,867

City of Long Beach
Nonmajor Governmental Funds-Special Revenue Funds
Schedule of Revenues, Expenditures and
Changes in Fund Balances
Budget and Actual (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended September 30, 2006
(In Thousands)

	General Grants				Health			
	Budgeted Amounts		Actual On Budgetary Basis	Variance with Final Budget - Favorable (unfavorable)	Budgeted Amounts		Actual On Budgetary Basis	Variance with Final Budget - Favorable (unfavorable)
	Original	Final			Original	Final		
Revenues:								
Sales Taxes	\$ -	\$ -	\$ -	\$ -	\$ 2,474	\$ 2,474	\$ 2,458	\$ (16)
Other Tax	-	-	-	-	-	-	-	-
Licenses and Permits	-	-	-	-	3,042	3,042	3,064	22
Use of Money and Property	-	101	75	(26)	1	83	-	(83)
From Other Agencies	31,752	35,463	22,405	(13,058)	53,558	65,535	27,524	(38,011)
Charges for Services	37	56	25	(31)	2,256	2,256	2,066	(190)
Other	-	-	-	-	362	362	173	(189)
Total Revenues	31,789	35,620	22,505	(13,115)	61,693	73,752	35,285	(38,467)
Expenditures:								
Public Safety	27,804	31,040	18,955	12,085	-	-	-	-
Public Health	1,151	1,151	1,158	(7)	64,064	76,122	38,302	37,820
Community and Cultural	3,028	3,776	2,668	1,108	-	-	-	-
Public Works	627	627	428	199	-	-	-	-
Oil Operations	-	-	-	-	-	-	-	-
Total Current Expenditures	32,610	36,594	23,209	13,385	64,064	76,122	38,302	37,820
Capital Improvements	-	-	-	-	-	-	-	-
Debt Service:								
Principal	-	-	-	-	209	209	204	5
Interest	-	-	-	-	115	115	121	(6)
Debt Administration Fees	-	-	-	-	-	-	-	-
Total Expenditures	32,610	36,594	23,209	13,385	64,388	76,446	38,627	37,819
Excess of Revenue Over (Under) Expenditures	(821)	(974)	(704)	270	(2,695)	(2,694)	(3,342)	(648)
Other Financing Sources (Uses):								
Transfers In	817	1,000	699	(301)	362	1,082	1,654	572
Transfers Out	-	-	-	-	(150)	(870)	-	870
Total Other Financing Sources (Uses)	817	1,000	699	(301)	212	212	1,654	1,442
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(4)	26	(5)	(31)	(2,483)	(2,482)	(1,688)	794
Fund Balances - October 1, Budgetary Basis	16	16	16	-	1,926	1,926	1,926	-
Encumbrances - Beginning of the Year	-	-	-	-	17	17	17	-
Fund Balances - September 30, Budgetary Basis	\$ 12	\$ 42	\$ 11	\$ (31)	\$ (540)	\$ (539)	\$ 255	\$ 794

See accompanying independent auditors' report.

				Parking and Business Area Improvement				Special Advertising and Promotion				Upland Oil Properties			
Budgeted Amounts		Actual On Budgetary Basis	Variance with Final Budget - Favorable (unfavorable)	Budgeted Amounts		Actual On Budgetary Basis	Variance with Final Budget - Favorable (unfavorable)	Budgeted Amounts		Actual On Budgetary Basis	Variance with Final Budget - Favorable (unfavorable)	Budgeted Amounts		Actual On Budgetary Basis	Variance with Final Budget - Favorable (unfavorable)
Original	Final			Original	Final			Original	Final			Original	Final		
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
873	873	815	(58)	2,541	6,041	5,445	(596)	4,640	4,640	4,640	-	-	-	-	-
21	21	23	2	9	9	13	4	557	730	758	28	-	-	-	-
-	-	-	-	-	-	-	-	336	1	35	34	16,296	22,569	21,481	(1,088)
-	-	-	-	-	-	-	-	120	-	-	-	-	-	-	-
-	-	1	1	-	-	-	-	-	-	-	-	-	-	-	-
894	894	839	(55)	2,550	6,050	5,458	(592)	5	195	148	(47)	-	-	-	-
-	-	-	-	-	-	-	-	5,658	5,566	5,581	15	16,296	22,569	21,481	(1,088)
963	964	964	-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	2,445	5,945	5,372	573	5,487	5,739	4,351	1,388	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	7,205	7,750	7,089	661
963	964	964	-	2,445	5,945	5,372	573	5,487	5,739	4,351	1,388	7,205	7,750	7,089	661
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
963	964	964	-	2,445	5,945	5,372	573	5,487	5,739	4,351	1,388	7,205	7,750	7,092	658
(69)	(70)	(125)	(55)	105	105	86	(19)	171	(173)	1,230	1,403	9,091	14,819	14,389	(430)
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	(984)	(984)	-	(8,770)	(15,102)	(14,011)	1,091
-	-	-	-	-	-	-	-	-	(984)	(984)	-	(8,770)	(15,102)	(14,011)	1,091
(69)	(70)	(125)	(55)	105	105	86	(19)	171	(1,157)	246	1,403	321	(283)	378	661
278	278	278	-	333	333	333	-	1,980	1,980	1,980	-	5,499	5,499	5,499	-
-	-	-	-	-	-	-	-	10	10	10	-	-	-	-	-
\$ 209	\$ 208	\$ 153	\$ (55)	\$ 438	\$ 438	\$ 419	\$ (19)	\$ 2,161	\$ 833	\$ 2,236	\$ 1,403	\$ 5,820	\$ 5,216	\$ 5,877	\$ 661

(continued)

City of Long Beach
Nonmajor Governmental Funds-Special Revenue Funds
Schedule of Revenues, Expenditures and
Changes in Fund Balances
Budget and Actual (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended September 30, 2006
(In Thousands)
(continued)

	Belmont Shore Parking Meter Revenue				Business Assistance			
	Budgeted Amounts		Actual On Budgetary Basis	Variance with Final Budget - Favorable (unfavorable)	Budgeted Amounts		Actual On Budgetary Basis	Variance with Final Budget - Favorable (unfavorable)
	Original	Final			Original	Final		
Revenues:								
Sales Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other Tax	-	-	-	-	-	-	-	-
Licenses and Permits	-	-	-	-	-	-	2	2
Use of Money and Property	448	448	484	36	-	-	65	65
From Other Agencies	-	-	-	-	-	-	593	593
Charges for Services	-	-	-	-	-	-	-	-
Other	-	-	-	-	90	90	177	87
Total Revenues	448	448	484	36	90	90	837	747
Expenditures:								
Public Safety	-	-	-	-	-	-	-	-
Public Health	-	-	-	-	-	-	-	-
Community and Cultural	382	382	187	195	1,876	1,921	1,694	227
Public Works	-	-	-	-	-	-	-	-
Oil Operations	-	-	-	-	-	-	-	-
Total Current Expenditures	382	382	187	195	1,876	1,921	1,694	227
Capital Improvements	-	-	-	-	-	-	-	-
Debt Service:								
Principal	145	145	145	-	-	-	-	-
Interest	67	67	67	-	-	-	-	-
Debt Administration Fees	-	-	-	-	-	-	-	-
Total Expenditures	594	594	399	195	1,876	1,921	1,694	227
Excess of Revenue Over (Under) Expenditures	(146)	(146)	85	231	(1,786)	(1,831)	(857)	974
Other Financing Sources (Uses):								
Transfers In	-	-	-	-	1,800	1,800	99	(1,701)
Transfers Out	-	-	-	-	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-	1,800	1,800	99	(1,701)
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	(146)	(146)	85	231	14	(31)	(758)	(727)
Fund Balances - October 1, Budgetary Basis	551	551	551	-	782	782	782	-
Encumbrances - Beginning of the Year	-	-	-	-	-	-	-	-
Fund Balances - September 30, Budgetary Basis	\$ 405	\$ 405	\$ 636	\$ 231	\$ 796	\$ 751	\$ 24	\$ (727)

See accompanying independent auditors' report.

Housing Assistance				Park Development				Gasoline Tax			
Budgeted Amounts		Actual On Budgetary Basis	Variance with Final Budget - Favorable (unfavorable)	Budgeted Amounts		Actual On Budgetary Basis	Variance with Final Budget - Favorable (unfavorable)	Budgeted Amounts		Actual On Budgetary Basis	Variance with Final Budget - Favorable (unfavorable)
Original	Final			Original	Final			Original	Final		
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	1,000	1,000	471	(529)	-	-	-	-
28	28	309	281	20	20	35	15	265	265	222	(43)
66,490	66,580	67,717	1,137	-	-	-	-	19,942	20,249	11,455	(8,794)
-	-	-	-	-	-	-	-	-	-	-	-
1,370	1,370	344	(1,026)	-	-	-	-	-	-	-	-
67,888	67,978	68,370	392	1,020	1,020	506	(514)	20,207	20,514	11,677	(8,837)
-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-
67,904	68,149	59,755	8,394	56	56	43	13	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-
67,904	68,149	59,755	8,394	56	56	43	13	-	-	-	-
-	-	-	-	-	-	-	-	20,102	26,718	12,955	13,763
-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-
67,904	68,149	59,755	8,394	56	56	43	13	20,102	26,718	12,955	13,763
(16)	(171)	8,615	8,786	964	964	483	(501)	105	(6,204)	(1,278)	4,926
-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	(1,000)	(1,000)	(1,013)	(13)	(6,309)	-	-	-
-	-	-	-	(1,000)	(1,000)	(1,013)	(13)	(6,309)	-	-	-
(16)	(171)	8,615	8,786	(36)	(36)	(550)	(514)	(6,204)	(6,204)	(1,278)	4,926
(1,251)	(1,251)	(1,251)	-	1,293	1,293	1,293	-	3,770	3,770	3,770	-
-	-	-	-	4	4	4	-	2,484	2,484	2,484	-
\$ (1,267)	\$ (1,422)	\$ 7,364	\$ 8,786	\$ 1,261	\$ 1,261	\$ 747	\$ (514)	\$ 50	\$ 50	\$ 4,976	\$ 4,926

(continued)

City of Long Beach
Nonmajor Governmental Funds-Special Revenue Funds
Schedule of Revenues, Expenditures and
Changes in Fund Balances
Budget and Actual (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended September 30, 2006
(In Thousands)
(continued)

	Transportation				Total			
	Budgeted Amounts		Actual On Budgetary Basis	Variance with Final Budget - Favorable (unfavorable)	Budgeted Amounts		Actual On Budgetary Basis	Variance with Final Budget - Favorable (unfavorable)
	Original	Final			Original	Final		
Revenues:								
Sales Taxes	\$ -	\$ -	\$ -	\$ -	\$ 2,474	\$ 2,474	\$ 2,458	\$ (16)
Other Tax	-	-	-	-	7,181	10,681	10,085	(596)
Licenses and Permits	-	-	-	-	5,472	5,645	5,110	(535)
Use of Money and Property	569	569	1,033	464	17,993	24,114	23,775	(339)
From Other Agencies	13,608	13,608	15,418	1,810	185,470	201,435	145,112	(56,323)
Charges for Services	-	-	-	-	2,293	2,312	2,091	(221)
Other	1	1	54	53	1,828	2,018	897	(1,121)
Total Revenues	14,178	14,178	16,505	2,327	222,711	248,679	189,528	(59,151)
Expenditures:								
Public Safety	-	-	-	-	27,804	31,040	18,955	12,085
Public Health	-	-	-	-	66,178	78,237	40,424	37,813
Community and Cultural	-	-	-	-	81,178	85,968	74,070	11,898
Public Works	34,520	34,520	19,408	15,112	35,147	35,147	19,836	15,311
Oil Operations	-	-	-	-	7,205	7,750	7,089	661
Total Current Expenditures	34,520	34,520	19,408	15,112	217,512	238,142	160,374	77,768
Capital Improvements	-	-	-	-	20,102	26,718	12,955	13,763
Debt Service:								
Principal	-	-	-	-	354	354	349	5
Interest	-	-	-	-	182	182	188	(6)
Debt Administration Fees	-	-	-	-	-	-	3	(3)
Total Expenditures	34,520	34,520	19,408	15,112	238,150	265,396	173,869	91,527
Excess of Revenue Over (Under) Expenditures	(20,342)	(20,342)	(2,903)	17,439	(15,439)	(16,717)	15,659	32,376
Other Financing Sources (Uses):								
Transfers In	-	-	-	-	2,979	3,882	2,452	(1,430)
Transfers Out	(600)	(600)	(484)	116	(16,829)	(18,556)	(16,492)	2,064
Total Other Financing Sources (Uses)	(600)	(600)	(484)	116	(13,850)	(14,674)	(14,040)	634
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	(20,942)	(20,942)	(3,387)	17,555	(29,289)	(31,391)	1,619	33,010
Fund Balances - October 1, Budgetary Basis	22,779	22,779	22,779	-	37,956	37,956	37,956	-
Encumbrances - Beginning of the Year	1,396	1,396	1,396	-	3,911	3,911	3,911	-
Fund Balances - September 30, Budgetary Basis	\$ 3,233	\$ 3,233	\$ 20,788	\$ 17,555	\$ 12,578	\$ 10,476	\$ 43,486	\$ 33,010

See accompanying independent auditors' report.

NONMAJOR ENTERPRISE FUNDS

Enterprise Funds are used to account for City operations that are financed and operated in a manner similar to private business enterprises. The intent of the City in using this type of fund is to determine that the costs (expenses, including depreciation) of providing these services to the general public on a continuing basis are financed or recovered primarily through user charges.

The Sewer Fund is used to account for the maintenance and replacement of the City's sewer pipelines and sewage facilities.

The Airport Fund is used to account for the operation and maintenance of the Long Beach Municipal Airport and leaseholds.

The Towing Fund is used to account for the City's towing services, which are used primarily by the Police and Public Works Departments to remove vehicles that have been abandoned or parked illegally on the City's streets.

The Subsidence Fund is used to account for the accumulation of resources to minimize and remedy future land sinkage due to oil operations in the tidelands area.

City of Long Beach
Nonmajor Proprietary Funds
Combining Statement of Net Assets
September 30, 2006
With Summarized Financial Information for 2005
(In Thousands)

					Totals	
	Sewer	Airport	Towing	Subsidence	September 30, 2006	September 30, 2005
ASSETS						
Current Assets:						
Pooled Cash and Cash Equivalents	\$ 10,125	\$ 13,622	\$ 1,643	\$ -	\$ 25,390	\$ 22,662
Receivables:						
Accounts Receivable	434	1,536	458	-	2,428	2,186
Due from Other Governments	-	2,640	-	-	2,640	1,364
Other Receivables	-	64	-	-	64	62
Allowance for Receivables	(27)	(33)	(251)	-	(311)	(301)
Inventory	66	-	-	-	66	71
Total Current Assets	10,598	17,829	1,850	-	30,277	26,044
Restricted Assets:						
Pooled Cash and Cash Equivalents	-	4,053	-	146,659	150,712	147,050
Non-Pooled Cash and Cash Equivalents	-	1,043	-	-	1,043	1,006
Non-Pooled Investments	-	-	-	3,169	3,169	3,449
Interest Receivable	-	-	-	35	35	41
Accounts Receivable	-	291	-	-	291	341
Total Restricted Assets	-	5,387	-	149,863	155,250	151,887
Noncurrent Assets:						
Other Noncurrent Receivables	-	487	-	-	487	543
Advances to Other Funds	-	-	-	8,114	8,114	4,054
Capital Assets:						
Land and Other Capital Assets not Being Depreciated	3,625	11,477	-	-	15,102	16,950
Capital Assets net of Accumulated Depreciation	38,995	73,817	147	-	112,959	104,258
Total Noncurrent Assets	42,620	85,781	147	8,114	136,662	125,805
Total Assets	53,218	108,997	1,997	157,977	322,189	303,736
LIABILITIES						
Current Liabilities Payable from Current Assets:						
Accounts Payable	791	964	20	-	1,775	1,917
Accrued Wages	97	184	64	-	345	295
Accrued Interest Payable	-	168	-	-	168	181
Due to Other Funds	51	161	32	-	244	153
Deferred Revenues	-	308	-	8,114	8,422	4,193
Collections Held in Trust	-	158	-	-	158	119
Advances from Developers	32	-	-	-	32	31
Other Long-Term Obligations-Current	-	785	-	-	785	750
Total Current Liabilities	971	2,728	116	8,114	11,929	7,639
Current Liabilities Payable from Restricted Assets:						
Accounts Payable	-	65	-	-	65	30
Noncurrent Liabilities:						
Deferred Revenues	-	6,235	-	-	6,235	2,574
Other Long-Term Obligations	-	10,195	-	-	10,195	10,980
Unamortized Discount/Deferred cost	-	(1,167)	-	-	(1,167)	(1,324)
Total Noncurrent Liabilities	-	15,263	-	-	15,263	12,230
Total Liabilities	971	18,056	116	8,114	27,257	19,899
NET ASSETS						
Investment in Capital Assets, Net of Related Debt	42,620	75,481	147	-	118,248	111,809
Restricted for:						
Debt Service	-	1,098	-	-	1,098	1,173
Capital Projects	-	4,224	-	-	4,224	1,193
Subsidence	-	-	-	149,863	149,863	148,484
Unrestricted	9,627	10,138	1,734	-	21,499	21,178
Total Net Assets	\$ 52,247	\$ 90,941	\$ 1,881	\$ 149,863	\$ 294,932	\$ 283,837

See accompanying independent auditors' report.

City of Long Beach
Nonmajor Proprietary Funds
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets
For the Fiscal Year Ended September 30, 2006
With Summarized Financial Information for 2005
(In Thousands)

					Totals	
	Sewer	Airport	Towing	Subsidence	September 30, 2006	September 30, 2005
Operating Revenues:						
Fees, Concessions and Rentals	\$ -	\$ 24,796	\$ -	\$ -	\$ 24,796	\$ 24,695
Charges for Services	9,244	-	7,773	-	17,017	17,340
Total Operating Revenues	9,244	24,796	7,773	-	41,813	42,035
Operating Expenses:						
Personal Services	2,689	6,915	2,585	-	12,189	10,863
Maintenance and Other Operations	3,815	13,818	6,063	-	23,696	20,947
Depreciation	1,233	3,737	9	-	4,979	3,218
Total Operating Expenses	7,737	24,470	8,657	-	40,864	35,028
Operating Income (Loss)	1,507	326	(884)	-	949	7,007
Non-Operating Income (Expense):						
Interest Income	366	617	83	5,439	6,505	4,559
Interest Expense	-	(724)	-	-	(724)	(736)
Loss on Disposition of Capital Assets	(12)	-	-	-	(12)	-
Operating Grants	-	58	-	-	58	1,283
Other Income (Expense)	1	4,289	74	(4,060)	304	383
Total Non-Operating Income (Expense)	355	4,240	157	1,379	6,131	5,489
Income (Loss) Before Contributions	1,862	4,566	(727)	1,379	7,080	12,496
Capital Grants and Contributions	-	4,015	-	-	4,015	17,290
Change in Net Assets	1,862	8,581	(727)	1,379	11,095	29,786
Net Assets - October 1	50,385	82,360	2,608	148,484	283,837	254,051
Net Assets - September 30	\$ 52,247	\$ 90,941	\$ 1,881	\$ 149,863	\$ 294,932	\$ 283,837

See accompanying independent auditors' report.

City of Long Beach
Nonmajor Proprietary Funds
Combining Statement of Cash Flows
For the Fiscal Year Ended September 30, 2006
With Summarized Financial Information for 2005
(In Thousands)

<u>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</u>					<u>Totals</u>	
	<u>Sewer</u>	<u>Airport</u>	<u>Towing</u>	<u>Subsidence</u>	<u>September 30, 2006</u>	<u>September 30, 2005</u>
Cash Flows from Operating Activities:						
Receipts from Customers	\$ 9,228	\$ 28,556	\$ 7,773	\$ -	\$ 45,557	\$ 43,123
Payments for Employee Salaries	(2,661)	(6,883)	(2,583)	-	(12,127)	(10,845)
Payments for Goods and Services	(3,276)	(8,769)	(3,235)	-	(15,280)	(16,297)
Payments in Lieu of Taxes	-	(5,413)	(2,878)	-	(8,291)	(7,404)
Other Expense	-	437	73	-	510	4,426
Net Cash Provided by (Used for) Operating Activities	<u>3,291</u>	<u>7,928</u>	<u>(850)</u>	<u>-</u>	<u>10,369</u>	<u>13,003</u>
Cash Flows from Non-Capital Financing Activities:						
Operating Grants Received from Other Governments	-	58	-	-	58	1,283
Cash Flows from Capital and Related Financing Activities:						
Receipt of Capital Grants	-	3,852	-	-	3,852	
Receipts of Contributed Capital	-	2,739	-	-	2,739	19,201
Payments for Capital Acquisitions	(2,807)	(9,187)	-	-	(11,994)	(24,784)
Payments of Principal on Bonds Payable	-	(750)	-	-	(750)	310
Payments of Interest	-	(580)	-	-	(580)	(863)
Net Cash Used for Capital and Related Financing Activities	<u>(2,807)</u>	<u>(3,926)</u>	<u>-</u>	<u>-</u>	<u>(6,733)</u>	<u>(6,136)</u>
Cash Flows from Investing Activities:						
Proceeds from the Sale of Investments	-	-	-	369	369	3,340
Payments to Other Government Entities	-	-	-	(4,061)	(4,061)	(4,054)
Receipts of Interest	367	617	84	5,357	6,425	5,047
Net Cash Provided by (Used for) Investing Activities	<u>367</u>	<u>617</u>	<u>84</u>	<u>1,665</u>	<u>2,733</u>	<u>4,333</u>
Net Increase (Decrease) in Cash and Cash Equivalents	851	4,677	(766)	1,665	6,427	12,483
Cash and Cash Equivalents - October 1	<u>9,274</u>	<u>14,041</u>	<u>2,409</u>	<u>144,994</u>	<u>170,718</u>	<u>158,235</u>
Cash and Cash Equivalents - September 30	<u>\$ 10,125</u>	<u>\$ 18,718</u>	<u>\$ 1,643</u>	<u>\$ 146,659</u>	<u>\$ 177,145</u>	<u>\$ 170,718</u>
 <u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES</u>						
Operating Income (Loss)	<u>\$ 1,507</u>	<u>\$ 326</u>	<u>\$ (884)</u>	<u>\$ -</u>	<u>\$ 949</u>	<u>\$ 7,007</u>
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:						
Depreciation and Amortization Expense	1,233	3,737	9	-	4,979	3,218
Other Income	8	437	73	-	518	4,426
(Increase) Decrease in Accounts Receivable, Net	(17)	(109)	-	-	(126)	1,012
(Increase) Decrease in Inventory	5	-	-	-	5	(10)
Increase (Decrease) in Accounts Payable	384	(443)	(50)	-	(109)	(1,060)
Increase in Accrued Wages Payable	28	33	-	-	61	14
Increase (Decrease) in Amounts Due to Other Funds	143	78	2	-	223	(1,691)
Increase in Deferred Revenues	-	3,829	-	-	3,829	76
Increase in Collections Held in Trust	-	40	-	-	40	11
Total Adjustments	<u>1,784</u>	<u>7,602</u>	<u>34</u>	<u>-</u>	<u>9,420</u>	<u>5,996</u>
Net Cash Provided by (Used for) Operating Activities	<u>\$ 3,291</u>	<u>\$ 7,928</u>	<u>\$ (850)</u>	<u>\$ -</u>	<u>\$ 10,369</u>	<u>\$ 13,003</u>

See accompanying independent auditors' report.

INTERNAL SERVICE FUNDS

Internal Service Funds are established to finance and account for goods and services provided by one City department to other City departments on a cost-reimbursement basis, including depreciation.

The Civic Center Fund is used to account for the operation and maintenance of the City Hall and Main Library Complex.

The General Services Fund is used to account for the operation, maintenance and replacement of the City's electronic data processing equipment and software, radio systems, telephone, mailing and reprographics services.

The Fleet Services Fund is used to account for the operation, maintenance and replacement of the City's fleet of vehicles and equipment.

The Insurance Fund is used to finance and account for the City's risk management and self-insurance programs.

The Employee Benefits Fund is used to finance and account for compensated absences, employer payroll taxes, and health and retirement benefits.

City of Long Beach
Internal Service Funds
Combining Statement of Net Assets (Deficit)
September 30, 2006
With Summarized Financial Information for 2005
(In Thousands)

	Civic Center	General Services	Fleet Services	Insurance	Employee Benefits	Totals	
						September 30, 2006	September 30, 2005
ASSETS							
Current Assets:							
Pooled Cash and Cash Equivalents	\$ 13,267	\$ 5,096	\$ 15,232	\$ 6,510	\$ 49,518	\$ 89,623	\$ 104,842
Receivables:							
Accounts Receivable	2	1,064	1,030	8,000	-	10,096	1,134
Due from Other Governments	-	340	303	59	-	702	966
Due from Other Funds	-	-	51	-	6,483	6,534	5,643
Allowance for Receivables	-	-	(329)	-	-	(329)	(249)
Inventory	-	157	1,580	-	-	1,737	1,519
Total Current Assets	<u>13,269</u>	<u>6,657</u>	<u>17,867</u>	<u>14,569</u>	<u>56,001</u>	<u>108,363</u>	<u>113,855</u>
Restricted Assets:							
Pooled Cash and Cash Equivalents	-	-	-	-	7,326	7,326	14,332
Non-Pooled Cash and Cash Equivalents	9,678	-	2,679	-	-	12,357	11,977
Deposits	-	-	-	-	6,858	6,858	2,848
Total Restricted Assets	<u>9,678</u>	<u>-</u>	<u>2,679</u>	<u>-</u>	<u>14,184</u>	<u>26,541</u>	<u>29,157</u>
Noncurrent Assets:							
Other Noncurrent Receivables	-	2,137	-	-	-	2,137	-
Capital Assets:							
Land and Other Capital Assets not Being Depreciated	6,938	584	2,140	-	-	9,662	7,314
Capital Assets net of Accumulated Depreciation	60,914	7,845	53,683	409	-	122,851	124,094
Other Assets-Long-Term	-	11	-	-	71,409	71,420	78,565
Total Noncurrent Assets	<u>67,852</u>	<u>10,577</u>	<u>55,823</u>	<u>409</u>	<u>71,409</u>	<u>206,070</u>	<u>209,973</u>
Total Assets	<u>90,799</u>	<u>17,234</u>	<u>76,369</u>	<u>14,978</u>	<u>141,594</u>	<u>340,974</u>	<u>352,985</u>
LIABILITIES							
Current Liabilities payable from Current Assets:							
Accounts Payable	1,136	646	844	763	9	3,398	7,041
Accrued Wages and Benefits	41	334	174	232	33,196	33,977	30,286
Accrued Interest Payable	94	1	136	-	4,460	4,691	3,481
Due to Other Funds	20	457	86	115	-	678	649
Collections Held in Trust	-	-	-	-	489	489	513
Employee Benefits-Current	-	-	-	-	6,200	6,200	7,900
Accrued Self-Insurance Claims-Current	-	-	-	19,010	-	19,010	21,750
Obligations Under Capital Leases-Current	256	1,493	465	-	-	2,214	1,887
Bonds Payable Due Within One Year	1,015	-	865	-	5,830	7,710	7,300
Total Current Liabilities	<u>2,562</u>	<u>2,931</u>	<u>2,570</u>	<u>20,120</u>	<u>50,184</u>	<u>78,367</u>	<u>80,807</u>
Noncurrent Liabilities:							
Employee Benefits	-	-	-	-	64,356	64,356	61,576
Accrued Self-Insurance Claims	-	-	-	85,780	-	85,780	112,362
Obligations Under Capital Lease	-	2,796	4,365	-	-	7,161	2,449
Bonds Payable	35,370	-	32,180	-	83,635	151,185	161,295
Unamortized Discount/Deferred cost	(1,640)	-	(2,279)	-	(9,431)	(13,350)	(15,016)
Total Noncurrent Liabilities	<u>33,730</u>	<u>2,796</u>	<u>34,266</u>	<u>85,780</u>	<u>138,560</u>	<u>295,132</u>	<u>322,666</u>
Total Liabilities	<u>36,292</u>	<u>5,727</u>	<u>36,836</u>	<u>105,900</u>	<u>188,744</u>	<u>373,499</u>	<u>403,473</u>
NET ASSETS (DEFICIT)							
Investment in Capital Assets, Net of Related Debt	39,557	6,277	25,057	409	-	71,300	66,410
Restricted for:							
Debt Service	2,972	-	2,679	-	59	5,710	9,604
Health Care Insurance	-	-	-	-	14,125	14,125	13,088
Unrestricted	11,978	5,230	11,797	(91,331)	(61,334)	(123,660)	(139,590)
Total Net Assets (Deficit)	<u>\$ 54,507</u>	<u>\$ 11,507</u>	<u>\$ 39,533</u>	<u>\$ (90,922)</u>	<u>\$ (47,150)</u>	<u>\$ (32,525)</u>	<u>\$ (50,488)</u>

See accompanying independent auditors' report.

City of Long Beach
Internal Service Funds
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets (Deficit)
For the Fiscal Year Ended September 30, 2006
With Summarized Financial Information for 2005
(In Thousands)

	Civic Center	General Services	Fleet Services	Insurance	Employee Benefits	Totals	
						September 30, 2006	September 30, 2005
Operating Revenues:							
Billing to Other Departments	\$ 9,675	\$ 26,346	\$ 24,854	\$ 34,712	\$ 172,751	\$ 268,338	\$ 252,267
Other	405	3,638	2,072	14	-	6,129	5,468
Total Operating Revenues	10,080	29,984	26,926	34,726	172,751	274,467	257,735
Operating Expenses:							
Personal Services	1,619	12,826	7,244	7,008	1,948	30,645	30,288
Maintenance and Other Operations	2,318	13,658	11,354	6,780	1,616	35,726	37,808
Insurance Premiums	-	-	-	2,804	-	2,804	2,906
Self-Insured Losses	-	-	-	7,841	-	7,841	54,088
Compensated Absences	-	-	-	2,276	41,132	43,408	39,424
Employee Benefits	-	-	-	-	120,906	120,906	115,306
Amortization	137	-	-	-	8,648	8,785	6,539
Depreciation	2,983	2,179	6,871	127	-	12,160	10,375
Total Operating Expenses	7,057	28,663	25,469	26,836	174,250	262,275	296,734
Operating Income (Loss)	3,023	1,321	1,457	7,890	(1,499)	12,192	(38,999)
Non-Operating Income (Expense):							
Interest Income	598	23	170	925	678	2,394	1,890
Interest Expense	(1,893)	(87)	(1,896)	-	(6,071)	(9,947)	(8,737)
Gain (Loss) on Disposition of Capital Assets	-	37	192	-	-	229	332
Other Income	(46)	1,374	427	9,633	4,026	15,414	5,886
Total Non-Operating Income (Expense)	(1,341)	1,347	(1,107)	10,558	(1,367)	8,090	(629)
Income (Loss) Before Contributions and Transfers	1,682	2,668	350	18,448	(2,866)	20,282	(39,628)
Capital Grants & Contributions	176	-	-	-	-	176	34,546
Transfers:							
Transfers In	-	-	484	-	-	484	1,350
Transfers Out	(500)	(2,479)	-	-	-	(2,979)	(5,859)
Change in Net Assets	1,358	189	834	18,448	(2,866)	17,963	(9,591)
Net Assets (Deficit) - October 1	53,149	11,318	38,699	(109,370)	(44,284)	(50,488)	(40,897)
Net Assets (Deficit) - September 30	\$ 54,507	\$ 11,507	\$ 39,533	\$ (90,922)	\$ (47,150)	\$ (32,525)	\$ (50,488)

See accompanying independent auditors' report.

City of Long Beach
Internal Service Funds
Combining Statement of Cash Flows
For the Fiscal Year Ended September 30, 2006
With Summarized Financial Information for 2005
(In Thousands)

<u>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</u>	Civic Center	General Services	Fleet Services	Insurance	Employee Benefits	<u>Totals</u>	
						September 30, 2006	September 30, 2005
Cash Flows from Operating Activities:							
Receipts from Customers	\$ 405	\$ 3,638	\$ 1,806	\$ -	\$ -	\$ 5,849	\$ 4,745
Receipts from Other Funds	9,675	26,146	24,805	26,729	171,910	259,265	251,548
Payments for Employee Salaries	(1,622)	(12,813)	(7,249)	(6,989)	(2,163)	(30,836)	(30,042)
Payments for Goods and Services	(1,569)	(14,464)	(14,458)	(9,926)	(1,955)	(42,372)	(36,686)
Payments for Compensated Absences	-	-	-	(15,960)	(37,827)	(53,787)	(53,553)
Payments for Employee Benefits	-	-	-	-	(123,277)	(123,277)	(113,434)
Payments for Liability Claims	-	-	-	(23,479)	-	(23,479)	(2,316)
Other Income	(46)	1,224	426	9,633	4,026	15,263	5,730
Net Cash Provided by (Used for) Operating Activities	6,843	3,731	5,330	(19,992)	10,714	6,626	25,992
Cash Flows from Non-Capital Financing Activities:							
Operating Subsidies Received from Other Funds	-	-	484	-	-	484	-
Transfers Out	(500)	(2,482)	-	-	-	(2,982)	(4,508)
Net Cash Provided by (Used for) Non-Capital Financing Activities	(500)	(2,482)	484	-	-	(2,498)	(4,508)
Cash Flows from Capital and Related Financing Activities:							
Proceeds from the Sale of Capital Assets	-	40	302	-	-	342	499
Proceeds from Issuance Of Long-Term Obligations	-	-	4,830	-	-	4,830	10,328
Receipts of Contributed Capital	176	-	-	-	-	176	165
Payments for Capital Acquisitions	(1,195)	(2,035)	(10,127)	(19)	-	(13,376)	(14,534)
Payments of Principal on Other Long- Term Obligations	(1,734)	(1,164)	(940)	-	(7,790)	(11,628)	(8,356)
Payments to Defease Bonds	-	-	-	-	-	-	(7,605)
Payments of Interest	(1,804)	(87)	(1,696)	-	(5,123)	(8,710)	(7,919)
Net Cash Used for Capital and Related Financing Activities	(4,557)	(3,246)	(7,631)	(19)	(12,913)	(28,366)	(27,422)
Cash Flows from Investing Activities:							
Receipts of Interest	598	23	170	924	678	2,393	1,889
Net Increase (Decrease) in Cash and Cash Equivalents	2,384	(1,974)	(1,647)	(19,087)	(1,521)	(21,845)	(4,049)
Cash and Cash Equivalents - October 1	20,561	7,070	19,558	25,597	58,365	131,151	135,200
Cash and Cash Equivalents - September 30	\$ 22,945	\$ 5,096	\$ 17,911	\$ 6,510	\$ 56,844	\$ 109,306	\$ 131,151
 <u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES</u>							
Operating Income (Loss)	\$ 3,023	\$ 1,321	\$ 1,457	\$ 7,890	\$ (1,499)	\$ 12,192	\$ (38,999)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used for)							
Operating Activities:							
Depreciation and Amortization Expense	3,120	2,179	6,871	127	8,648	20,945	16,914
Other Income (Expense)	(46)	1,378	426	9,633	16	11,407	3,037
(Increase) Decrease in Accounts Receivable, Net	-	(200)	(684)	(8,000)	-	(8,884)	25
(Increase) Decrease in Amounts Due from Other Governments	-	(153)	418	-	-	265	(870)
(Increase) Decrease in Amounts Due from Other Funds	-	-	2	-	(840)	(838)	(727)
(Increase) Decrease in Inventory	-	-	(219)	-	-	(219)	22
Increase (Decrease) in Accounts Payable	748	(823)	(2,887)	(342)	(340)	(3,644)	3,679
Increase (Decrease) in Accrued Wages Payable	(2)	14	(5)	10	4,753	4,770	4,036
Increase (Decrease) in Amounts Due to Other Funds	-	15	(49)	11	-	(23)	313
Increase (Decrease) in Accrued Claims Payable	-	-	-	(29,321)	-	(29,321)	38,180
Increase (Decrease) in Collections Held in Trust	-	-	-	-	(24)	(24)	382
Total Adjustments	3,820	2,410	3,873	(27,882)	12,213	(5,566)	64,991
Net Cash Provided by (Used for) Operating Activities	\$ 6,843	\$ 3,731	\$ 5,330	\$ (19,992)	\$ 10,714	\$ 6,626	\$ 25,992

See accompanying independent auditors' report.

FIDUCIARY FUNDS

Fiduciary Funds, comprised of Private Purpose Trust and Agency Funds, are used to account for assets held by the City in a trustee capacity or as an agent for other governmental units, private organizations or individuals.

Private Purpose Trust Funds are used to account for trust monies, wherein the principal and interest of the trust can be expended by the City in accordance with the terms of the trust agreement.

The Miller Library and Miller Museum Funds are used to account for bequests from Lorraine Miller Collins. The principal and interest on the trusts are to be used to maintain and purchase materials for the Miller Special Collections room in the City's Main Library.

The Mayor's Fund for the Homeless is used to account for donations from the public for use in assisting the City's homeless population.

Agency Funds are used to account for funds held by the City as an agent for other governmental units, private organizations or individuals.

City of Long Beach
Fiduciary Funds
Private Purpose Trust Funds
Combining Statement of Net Assets
September 30, 2006
With Summarized Financial Information for 2005
(In Thousands)

	Miller Library	Mayor's Fund for the Homeless	Totals	
			September 30, 2006	September 30, 2005
ASSETS				
Restricted Pooled Cash and Cash Equivalents	\$ 867	\$ 76	\$ 943	\$ 978
NET ASSETS				
Held in Trust for Private Purpose Trust Funds	<u>\$ 867</u>	<u>\$ 76</u>	<u>\$ 943</u>	<u>\$ 978</u>

City of Long Beach
Fiduciary Funds
Private Purpose Trust Funds
Combining Statement of Changes in Net Assets
For the Fiscal Year Ended September 30, 2006
With Summarized Financial Information for 2005
(In Thousands)

	Miller Library	Mayor's Fund for the Homeless	Totals	
			September 30, 2006	September 30, 2005
Additions:				
Use of Money and Property	\$ 31	\$ 6	\$ 37	\$ 26
Contributions from Citizens	-	28	28	30
Total Additions	<u>31</u>	<u>34</u>	<u>65</u>	<u>56</u>
Deductions:				
Community and Cultural	<u>15</u>	<u>85</u>	<u>100</u>	<u>45</u>
Change in Net Assets	16	(51)	(35)	11
Net Assets, October 1	<u>851</u>	<u>127</u>	<u>978</u>	<u>967</u>
Net Assets, September 30	<u>\$ 867</u>	<u>\$ 76</u>	<u>\$ 943</u>	<u>\$ 978</u>

See accompanying independent auditors' report.

City of Long Beach
Fiduciary Funds - Agency Funds
Combining Statement of Changes in Assets and Liabilities
For the Fiscal Year Ended September 30, 2006
(In Thousands)

	Balance October 1, 2005	Additions	Deletions	Balance September 30, 2006
<u>BELMONT SHORE PARKING</u>				
<u>DISTRICT FUND</u>				
ASSETS				
Pooled Cash and Cash Equivalents	\$ 89	\$ -	\$ -	\$ 89
LIABILITIES				
Accounts Payable	\$ 89	\$ -	\$ -	\$ 89
<u>TAXES - OIL RIGHTS FUND</u>				
ASSETS				
Pooled Cash and Cash Equivalents	\$ 1,422	\$ 52	\$ -	\$ 1,474
LIABILITIES				
Collections Held in Trust	\$ 1,422	\$ 104	\$ 52	\$ 1,474
<u>SPECIAL ASSESSMENT DISTRICT FUND</u>				
ASSETS				
Pooled Cash and Cash Equivalents	\$ 1,669	\$ 7,202	\$ 4,180	\$ 4,691
Non-Pooled Cash and Cash Equivalents	7,293	2,747	4,613	5,427
Total Assets	\$ 8,962	\$ 9,949	\$ 8,793	\$ 10,118
LIABILITIES				
Due to Special Assessment Bondholders	\$ 184	\$ 4,523	\$ 3,126	\$ 1,581
Collections Held in Trust	8,778	4,947	5,188	8,537
Total Liabilities	\$ 8,962	\$ 9,470	\$ 8,314	\$ 10,118
<u>INTERMODAL CONTAINER TRANSFER FACILITY</u>				
<u>JOINT POWER AUTHORITY FUND</u>				
ASSETS				
Pooled Cash and Cash Equivalents	\$ 2,775	\$ 6,694	\$ 7,000	\$ 2,469
LIABILITIES				
Collections Held in Trust	\$ 2,775	\$ 6,892	\$ 7,198	\$ 2,469
<u>EARTHQUAKE ASSESSMENT DISTRICT FUND</u>				
ASSETS				
Pooled Cash and Cash Equivalents	\$ 1,058	\$ 1,064	\$ 1,107	\$ 1,015
LIABILITIES				
Due to Special Assessment Bondholders	\$ 770	\$ 1,106	\$ 1,153	\$ 723
Collections Held in Trust	288	8	4	292
Total Liabilities	\$ 1,058	\$ 1,114	\$ 1,157	\$ 1,015

(continued)

City of Long Beach
Fiduciary Funds - Agency Funds
Combining Statement of Changes in Assets and Liabilities
For the Fiscal Year Ended September 30, 2006
(In Thousands)
(continued)

	Balance October 1, 2005	Additions	Deletions	Balance September 30, 2006
<u>OTHER AGENCY FUNDS</u>				
ASSETS				
Pooled Cash and Cash Equivalents	\$ 729	\$ 1,513	\$ 1,026	\$ 1,216
Non-Pooled Cash and Cash Equivalents	-	20	-	20
Accounts Receivable	-	20	20	-
Land	-	11,000	-	11,000
Total Assets	<u>\$ 729</u>	<u>\$ 12,553</u>	<u>\$ 1,046</u>	<u>\$ 12,236</u>
LIABILITIES				
Accounts Payable	\$ 2	\$ 170	\$ 170	\$ 2
Collections Held in Trust	727	12,518	1,011	12,234
Total Liabilities	<u>\$ 729</u>	<u>\$ 12,688</u>	<u>\$ 1,181</u>	<u>\$ 12,236</u>
<u>TOTAL AGENCY FUND</u>				
ASSETS				
Pooled Cash and Cash Equivalents	\$ 7,742	\$ 16,525	\$ 13,313	\$ 10,954
Non-Pooled Cash and Cash Equivalents	7,293	2,767	4,613	5,447
Accounts Receivable	-	20	20	-
Land	-	11,000	-	11,000
Total Assets	<u>\$ 15,035</u>	<u>\$ 30,312</u>	<u>\$ 17,946</u>	<u>\$ 27,401</u>
LIABILITIES				
Accounts Payable	\$ 91	\$ 170	\$ 170	\$ 91
Due to Special Assessment Bondholders	954	5,629	4,279	2,304
Collections Held in Trust	13,990	24,469	13,453	25,006
Total Liabilities	<u>\$ 15,035</u>	<u>\$ 30,268</u>	<u>\$ 17,902</u>	<u>\$ 27,401</u>

See accompanying independent auditors' report.

**CAPITAL ASSETS
USED IN THE OPERATION OF
GOVERNMENTAL FUNDS**

This section of the CAFR provides additional information regarding the infrastructure and capital assets used in the City's governmental fund operations. These assets are reported only in the governmental activities column of the government-wide Statement of Net Assets. In addition to the information about such assets provided in the Notes to the Basic Financial Statements, this section provides information on the source of funding for the assets, the function and activity to which the assets are charged and changes in such assets by function and activity.

City of Long Beach
Capital Assets Used in the Operations of Governmental Funds
Schedule by Source ¹
September 30, 2006
(In Thousands)

Governmental Funds Capital Assets:

Land	\$ 112,768
Right-a-way	81,311
Construction In Progress	90,316
Building	117,925
Improvements other than Buildings	54,213
Infrastructure	348,126
Machinery and Equipment	36,627
Automotive	9,783
Other Assets	30,719
Less Accumulated Depreciation	<u>(292,734)</u>
Governmental Funds Capital Assets, Net of Accumulated Depreciation	<u><u>\$ 589,054</u></u>

Investments in Governmental Funds Capital Assets by Source:

General Fund	\$ 295,821
Special Revenue Funds	139,396
Capital Projects Funds	<u>153,837</u>
	<u><u>\$ 589,054</u></u>

¹ This schedule presents only the capital asset balances related to governmental funds. Accordingly, the capital assets reported in internal service funds are excluded from the above amounts. Generally, the capital assets of internal service funds are included as governmental activities in the statement of net assets.

See accompanying independent auditors' report.

City of Long Beach
Capital Assets Used in the Operations of Governmental Funds
Schedule by Function ¹
September 30, 2006
(In Thousands)

	Capital Assets not being Depreciated			Capital Assets, net of Depreciation						Total
	Land	Right-a-way	Construction In Progress	Building	Improvements other than Buildings	Infrastructures	Machinery and Equipment	Auto-motive	Other Assets	
Legislative and Legal	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 48	\$ -	\$ -	\$ 48
General Government	58	-	-	4,719	164	-	59	-	-	5,000
Public Safety	2,765	-	-	42,078	465	-	10,479	751	-	56,538
Public Health	4,594	-	-	6,234	2,618	-	269	-	-	13,715
Community & Cultural	102,614	-	-	34,553	23,201	3,580	159	4	4,259	168,370
Public Works	2,737	81,311	90,316	160	7,330	157,468	68	5,993	-	345,383
	<u>\$ 112,768</u>	<u>\$ 81,311</u>	<u>\$ 90,316</u>	<u>\$ 87,744</u>	<u>\$ 33,778</u>	<u>\$ 161,048</u>	<u>\$ 11,082</u>	<u>\$ 6,748</u>	<u>\$ 4,259</u>	<u>\$ 589,054</u>

¹ This schedule presents only the capital asset balances related to governmental funds. Accordingly, the capital assets reported in internal service funds are excluded from the above amounts. Generally, the capital assets of internal service funds are included as governmental activities in the statement of net assets.

See accompanying independent auditors' report.

City of Long Beach
Capital Assets Used in the Operations of Governmental Funds
Schedule of Changes by Function ¹
September 30, 2006
(In Thousands)

	Balance at October 1, 2005	Increase (Decrease), net of Depreciation Expense	Decrease, net of Accumulated Depreciation	Balance at September 30, 2006
Legislative and Legal	\$ 235	\$ (137)	\$ (50)	\$ 48
General Government	5,439	(277)	(162)	5,000
Public Safety	59,089	(2,551)	-	56,538
Public Health	11,347	2,368	-	13,715
Community & Cultural	170,097	(1,632)	(95)	168,370
Public Works	248,441	115,431	(18,489)	345,383
	<u>\$ 494,648</u>	<u>\$ 113,202</u>	<u>\$ (18,796)</u>	<u>\$ 589,054</u>

¹ This schedule presents only the capital asset balances related to governmental funds. Accordingly, the capital assets reported in internal service funds are excluded from the above amounts. Generally, the capital assets of internal service funds are included as governmental activities in the statement of net assets.

See accompanying independent auditors' report.

STATISTICAL SECTION

This part of the City of Long Beach's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the government's overall financial health.

Contents

Financial Trends

These schedules contain trend information to help the reader understand how the government's financial performance and well-being have changed over time.

Revenue Capacity

These schedules contain information to help the reader assess the government's most significant local revenue source, the property tax.

Debt Capacity

These schedules present information to help the reader assess the affordability of the government's current levels of outstanding debt and the government's ability to issue additional debt in the future.

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place.

Operating Information

These schedules contain service and infrastructure data to help the reader understand how the information in the government's financial report relates to the services the government provides and the activities it performs.

Source: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

City of Long Beach
Net Assets by Component
Last Five Fiscal Years
(accrual basis of accounting)
(In Thousands)

	Fiscal Year				
	2002	2003	2004	2005	2006
Governmental activities:					
Invested in capital assets, net of related debt	\$ 197,111	\$ 233,912	\$ 261,014	\$ 99,122	\$ 209,230
Restricted	313,119	313,047	286,745	474,313	496,094
Unrestricted	(56,298)	(85,689)	(78,179)	(118,328)	(106,380)
Total governmental activities net assets	<u>\$ 453,932</u>	<u>\$ 461,270</u>	<u>\$ 469,580</u>	<u>\$ 455,107</u>	<u>\$ 598,944</u>
Business-type activities:					
Invested in capital assets, net of related debt	\$ 1,399,761	\$ 1,484,399	\$ 1,534,595	\$ 1,564,750	\$ 1,572,117
Restricted	539,903	453,919	498,341	505,875	523,769
Unrestricted	321,924	396,157	446,833	586,327	733,495
Total business-type activities net assets	<u>\$ 2,261,588</u>	<u>\$ 2,334,475</u>	<u>\$ 2,479,769</u>	<u>\$ 2,656,952</u>	<u>\$ 2,829,381</u>
Primary government:					
Invested in capital assets, net of related debt	\$ 1,596,872	\$ 1,718,311	\$ 1,795,609	\$ 1,663,872	\$ 1,781,347
Restricted	853,022	766,966	785,086	980,188	1,019,863
Unrestricted	265,626	310,468	368,654	467,999	627,115
Total primary government net assets	<u>\$ 2,715,520</u>	<u>\$ 2,795,745</u>	<u>\$ 2,949,349</u>	<u>\$ 3,112,059</u>	<u>\$ 3,428,325</u>

The City of Long Beach implemented GASB 34 for the fiscal year ended September 30, 2002.
Information prior to the implementation of GASB 34 is not available.
See accompanying independent auditors' report.

City of Long Beach
Changes in Net Assets
Last Five Fiscal Years
(accrual basis of accounting)
(In Thousands)

	Fiscal Year				
	2002	2003	2004	2005	2006
Expenses:					
Governmental Activities:					
Legislative and Legal	\$ 10,471	\$ 9,457	\$ 9,721	\$ 10,313	\$ 12,003
General Government	28,564	24,635	23,179	25,808	13,988
Public Safety	228,214	231,514	227,601	280,415	255,188
Public Health	37,872	39,515	42,184	43,874	44,024
Community & Cultural	145,376	159,765	164,982	177,210	186,528
Public Works	54,352	56,545	67,425	58,783	55,009
Oil Operations	4,672	5,516	6,215	6,367	7,192
Interest on Long-Term Debt	23,660	24,761	22,652	30,831	34,554
Total Governmental Activities Expenses	533,181	551,708	563,959	633,601	608,486
Business-type activities:					
Gas	55,334	68,728	76,408	89,463	99,656
Water	58,814	55,756	57,849	62,075	62,480
Sewer	7,858	8,748	7,787	7,337	7,612
Airport	18,666	18,747	19,476	22,465	24,816
Solid Waste Management	71,202	71,027	70,658	70,493	73,679
Towing	5,845	5,427	6,762	6,858	8,520
Tidelands	81,261	80,880	83,501	94,033	105,671
Tideland Oil Revenue	36,451	70,376	102,098	188,250	264,355
Subsidence	3,187	2,401	441	4,054	4,061
Harbor	131,500	175,821	198,084	207,689	214,349
Total Business-Type Activities Expenses	470,118	557,911	623,064	752,717	865,199
Total Primary Government Expenses	<u>\$ 1,003,299</u>	<u>\$ 1,109,619</u>	<u>\$ 1,187,023</u>	<u>\$ 1,386,318</u>	<u>\$ 1,473,685</u>
Program Revenues:					
Governmental Activities:					
Charges for services:					
Legislative and Legal	\$ 524	\$ 400	\$ 415	\$ 98	\$ 1,256
General Government	23,572	24,893	26,952	27,289	20,174
Public Safety	32,742	34,120	36,678	39,768	36,694
Public Health	6,859	7,041	7,397	7,557	6,565
Community & Cultural	17,636	17,921	18,292	23,649	23,291
Public Works	17,035	14,966	15,179	16,878	17,840
Oil Operations	8,646	11,587	13,274	17,253	21,481
Operating Grants and Contributions	138,254	135,837	143,818	142,011	166,426
Capital Grants and Contributions	10,191	14,456	13,285	11,489	13,726
Total Governmental Activities Program Revenues	255,459	261,221	275,290	285,992	307,453

(continued)

City of Long Beach
Changes in Net Assets
Last Five Fiscal Years
(accrual basis of accounting)
(In Thousands)

	Fiscal Year				
	2002	2003	2004	2005	2006
Business-Type activities:					
Charges for Services:					
Gas	62,642	75,610	88,717	104,450	113,053
Water	60,453	60,197	64,984	65,813	67,198
Sewer	8,050	9,056	9,283	9,729	9,245
Airport	13,357	23,540	27,905	29,121	29,086
Solid Waste Management	69,500	69,441	71,198	70,128	80,015
Towing	5,448	5,640	6,770	7,622	7,846
Tidelands	46,860	50,870	53,887	55,436	73,013
Tideland Oil Revenue	44,521	85,839	131,035	208,488	266,992
Harbor	226,459	249,542	280,782	338,167	354,125
Operating grants and contributions	3,597	886	1,066	2,520	1,184
Capital grants and contributions	36,691	9,625	23,500	25,787	8,947
Total Business-Type Activities					
Program Revenues	577,578	640,246	759,127	917,261	1,010,704
Total Primary Government					
Program Revenues	\$ 833,037	\$ 901,467	\$ 1,034,417	\$ 1,203,253	\$ 1,318,157
Net Revenues (expenses):					
Governmental Activities	\$ (277,722)	\$ (290,487)	\$ (288,669)	\$ (347,609)	\$ (301,033)
Business-Type Activities	107,460	82,335	136,063	164,544	145,505
Total Net Revenues (expenses)	\$ (170,262)	\$ (208,152)	\$ (152,606)	\$ (183,065)	\$ (155,528)
General revenues and other changes in net assets:					
Governmental Activities:					
Taxes:					
Property	\$ 79,814	\$ 87,285	\$ 107,796	\$ 123,924	\$ 141,335
Sales	41,246	44,863	42,383	48,216	51,557
Utility Users	55,838	50,883	45,339	39,216	40,637
Other	38,262	42,841	46,616	51,238	58,291
Grants and Contributions not					
Restricted to Specific Programs	35,621	27,917	28,693	39,205	115,668
Unrestricted Investment Earnings	17,175	13,369	12,325	16,213	23,520
Gain (Loss) on Sales of Capital Assets	(42)	977	317	810	806
Capital Asset Transfers	7,780	21,790	926	-	-
Transfers	5,317		12,584	14,314	13,056
Total governmental activities	281,011	289,925	296,979	333,136	444,870
Business-type activities:					
Unrestricted Investment Earnings	32,279	24,378	25,280	27,599	42,021
Loss on Sales of Capital Assets	(11,393)	(12,036)	(2,539)	(665)	(2,041)
Capital Asset Transfers	-	(21,790)	(926)	19	-
Transfers	(5,317)	-	(12,584)	(14,314)	(13,056)
Total business-type activities	15,569	(9,448)	9,231	12,639	26,924
Total primary government	\$ 296,580	\$ 280,477	\$ 306,210	\$ 345,775	\$ 471,794
Changes in net assets					
Government activities	\$ 3,289	\$ (562)	\$ 8,310	\$ (14,473)	\$ 143,837
Business-type Activities	123,029	72,887	145,294	177,183	172,429
Total primary government	\$ 126,318	\$ 72,325	\$ 153,604	\$ 162,710	\$ 316,266

The City of Long Beach implemented GASB 34 for the fiscal year ended September 30, 2002. Information prior to the implementation of GASB 34 is not available.

See accompanying independent auditors' report.

CITY OF LONG BEACH
Fund Balances of Governmental Funds
Last Five Fiscal Years
(modified accrual basis of accounting)
(In Thousands)

	Fiscal Year				
	2002	2003	2004	2005	2006
General Fund:					
Reserved	\$ 123,104	\$ 115,644	\$ 114,006	\$ 111,825	\$ 111,959
Unreserved	43,562	45,592	47,516	38,404	35,478
Total General Fund	<u>\$ 166,666</u>	<u>\$ 161,236</u>	<u>\$ 161,522</u>	<u>\$ 150,229</u>	<u>\$ 147,437</u>
All Other Governmental Funds:					
Reserved	\$ 222,687	\$ 227,051	\$ 196,602	\$ 377,560	\$ 358,094
Unreserved, Reported in:					
Special Revenue Funds	20,446	\$ 20,154	18,227	30,346	40,843
Capital Project Funds	<u>(127,645)</u>	<u>(119,856)</u>	<u>(109,292)</u>	<u>(109,326)</u>	<u>(85,187)</u>
Total All Other Governmental Funds	<u>\$ 115,488</u>	<u>\$ 127,349</u>	<u>\$ 105,537</u>	<u>\$ 298,580</u>	<u>\$ 313,750</u>

The City of Long Beach has elected to show only five years of data for this schedule.

See accompanying independent auditors' report.

City of Long Beach
Changes in Fund Balances of Governmental Funds
Last Five Fiscal Years
(modified accrual basis of accounting)
(In Thousands)

	Fiscal Year				
	2002	2003	2004	2005	2006
Revenues:					
Taxes:					
Property	\$ 80,621	\$ 87,264	\$ 107,825	\$ 124,463	\$ 141,081
Sales	41,246	44,863	42,383	48,216	51,557
Utility Users	55,838	50,883	45,339	39,216	40,637
Other Taxes	38,263	42,842	46,616	51,237	58,292
Licenses and Permits	23,401	23,103	22,878	26,269	30,008
Fines and Forfeitures	11,448	11,017	13,581	14,744	16,387
Use of Money and Property	36,859	40,135	36,856	48,849	57,964
From Other Agencies	181,874	178,275	186,426	192,722	219,946
Charges for Services	41,277	44,282	45,948	46,633	29,071
Other Land Proceeds	3,448	-	-	-	716
Other	9,687	13,922	13,106	15,987	13,892
Total Revenues	<u>523,962</u>	<u>536,586</u>	<u>560,958</u>	<u>608,336</u>	<u>659,551</u>
Expenditures:					
Current:					
Legislative and Legal	10,985	9,588	10,359	10,037	12,464
General Government	30,444	24,655	23,407	25,209	15,123
Public Safety	230,112	236,341	227,176	257,869	266,057
Public Health	37,516	38,146	41,927	41,651	44,734
Community and Cultural	151,593	158,190	177,114	179,859	199,777
Public Works	43,565	42,751	43,589	42,885	42,647
Oil Operations	4,672	5,517	5,512	6,164	7,089
Total Current Expenditures	<u>508,887</u>	<u>515,188</u>	<u>529,084</u>	<u>563,674</u>	<u>587,891</u>
Capital Improvements	46,605	39,148	55,565	30,106	39,062
Loss on Disposition of Land					
Held for Resale	198	3,134	12	4,090	-
Debt Service:					
Principal	13,253	9,169	11,001	11,942	14,822
Interest	12,556	17,327	16,282	20,806	25,289
Debt Administration Fees	76	152	247	320	147
Total Expenditures	<u>581,575</u>	<u>584,118</u>	<u>612,191</u>	<u>630,938</u>	<u>667,211</u>
Excess (deficiency) of Revenues					
Over (Under) Expenditures	<u>(57,613)</u>	<u>(47,532)</u>	<u>(51,233)</u>	<u>(22,602)</u>	<u>(7,660)</u>
Other financing sources (uses):					
Other Deferred Payments	513	159	229	221	220
Proceeds from Other Long-Term					
Obligations	138,501	58,756	17,360	188,344	40,402
Payment to Refunded Bond Escrow					
Agent	(23,223)	(38,295)	(10,729)	(3,526)	(36,135)
Reconveyance of Land	1,733	-	-	-	-
Advances-Capitalized Interest	426	512	13	491	-
Transfers In	49,106	74,534	73,563	52,782	55,900
Transfers Out	<u>(36,513)</u>	<u>(41,703)</u>	<u>(50,729)</u>	<u>(33,960)</u>	<u>(40,349)</u>
Total Other Financing					
Sources (Uses)	<u>130,543</u>	<u>53,963</u>	<u>29,707</u>	<u>204,352</u>	<u>20,038</u>
Net Change in Fund Balances	<u>\$ 72,930</u>	<u>\$ 6,431</u>	<u>\$ (21,526)</u>	<u>\$ 181,750</u>	<u>\$ 12,378</u>

Debt Service as a Percentage of					
Noncapital Expenditures	4.8%	4.9%	4.9%	5.5%	6.4%

The City of Long Beach has elected to show only five years of data for this schedule.

See accompanying independent auditors' report.

City of Long Beach
Governmental Activities Tax Revenues by Source
Last Ten Fiscal Years
(modified accrual basis of accounting)
(In Thousands)

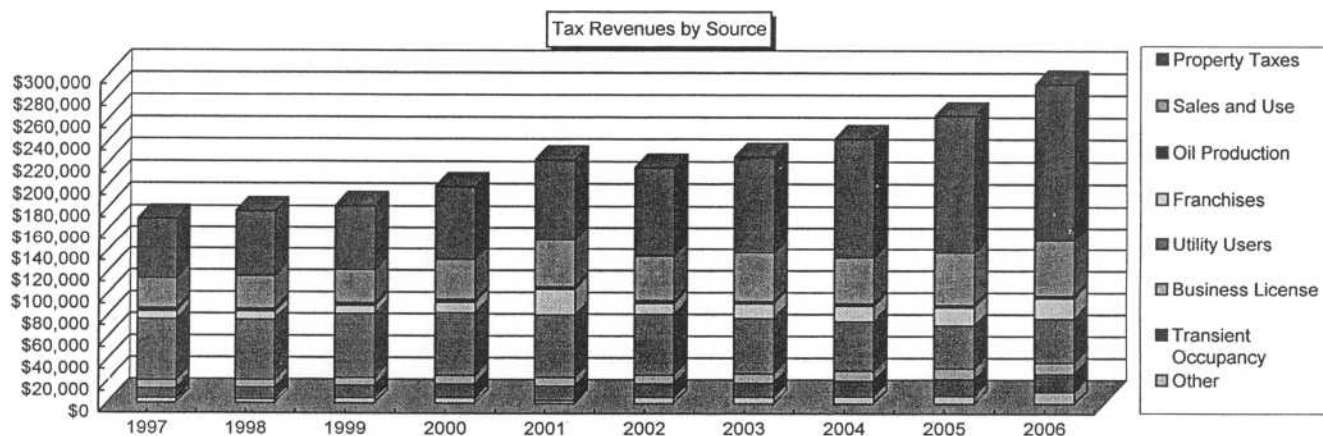
Fiscal Year-end (1)	Property Taxes	Sales and Use	Oil Production	Franchises	Utility Users	Business License	Transient Occupancy	Other (2)	Totals
1997	\$ 55,538	\$ 27,637	\$ 3,104	\$ 6,812	\$ 56,082	\$ 7,359	\$ 9,207	\$ 4,041	\$ 169,780
1998	60,136	30,140	2,937	7,033	55,170	7,316	10,475	3,491	176,698
1999	59,499	30,310	2,577	7,463	58,562	7,298	11,479	4,593	181,781
2000	66,635	37,362	2,479	9,695	57,396	7,752	12,788	4,864	198,971
2001	72,737	43,415	2,365	23,706	57,151	8,052	13,336	2,525	223,287
2002	80,621	41,246	2,257	9,976	55,838	8,067	12,447	5,516	215,968
2003	87,264	44,863	2,245	13,363	50,883	8,430	13,134	5,670	225,852
2004	107,825	42,383	2,306	14,460	45,339	9,284	14,089	6,478	242,164
2005	124,463	48,216	2,335	16,670	39,216	9,879	15,527	6,826	263,132
2006	141,081	51,557	2,245	18,501	40,637	10,345	16,548	10,652	291,567

Notes:

- (1) Tax revenues by source include all Governmental Fund Types (General, Special Revenue, and Capital Projects Funds), including property tax and transient lodging tax for the Long Beach Redevelopment Agency as indicated below in accordance with generally accepted accounting principles. The Long Beach Housing Authority had no tax revenues in

Fiscal Year-end	Property Taxes (In Thousands)	Transient Occupancy/ Other (In Thousands)
1997	\$ 13,574	\$ 1,888
1998	15,593	2,200
1999	11,229	2,337
2000	18,061	2,727
2001	18,917	2,832
2002	25,796	2,604
2003	27,475	2,778
2004	41,718	2,899
2005	50,977	3,261
2006	63,406	3,634

- (2) Includes Real Property Transfer, Special Parking, Miscellaneous Taxes, and transfers from funds in lieu of taxes.



Source: City of Long Beach, Department of Financial Management.

See accompanying independent auditors' report.

City of Long Beach
Assessed Value and Estimated Actual Value of Taxable Property
Last Ten Fiscal Years
(In Thousands)

Fiscal Year-end	City				Redevelopment Agency				Total Direct Tax Rate
	Secured	Unsecured	Less: Exemptions	Taxable Assessed Value	Secured	Unsecured	Less: Exemptions	Taxable Assessed Value	
1997	\$ 19,988,570	\$ 1,439,387	\$ (720,728)	\$ 20,707,229	\$ 3,334,261	\$ 426,231	\$ (349,295)	\$ 3,411,197	1.00%
1998	19,898,582	1,504,460	(720,663)	20,682,379	5,924,592	383,996	(379,502)	5,929,086	1.00%
1999	19,878,940	1,636,665	(718,025)	20,797,580	6,497,343	950,643	(392,786)	7,055,200	1.00%
2000	20,219,423	1,613,177	(688,864)	21,143,736	6,726,439	922,313	(487,795)	7,160,957	1.00%
2001	22,036,954	1,651,417	(725,200)	22,963,171	6,958,056	981,866	(514,916)	7,425,006	1.00%
2002	23,195,257	1,794,736	(608,486)	24,381,507	7,363,069	1,034,477	(468,103)	7,929,443	1.00%
2003	24,478,339	1,976,078	(722,421)	25,731,996	7,587,453	1,122,382	(574,849)	8,134,986	1.00%
2004	27,334,246	2,278,983	(783,201)	28,830,028	8,897,464	1,249,847	(627,772)	9,519,539	1.00%
2005	29,650,613	2,419,098	(678,462)	31,391,249	9,818,218	1,346,019	(500,416)	10,663,821	1.00%
2006	32,881,116	2,638,789	(916,457)	34,603,448	11,178,815	1,565,654	(678,515)	12,065,954	1.00%

In 1978 the voters of the State of California passed Proposition 13 which limited property taxes to a total maximum rate of 1% based upon the assessed value of the property being taxed. Each year, the assessed value of property may be increased by an "inflation factor" (limited to a maximum increase of 2%). With few exceptions, property is only reassessed at the time that it is sold to a new owner. At that point, the new assessed value is reassessed at the purchase price of the property sold. The assessed valuation data shown above represents the only data currently available with respect to the actual market value of taxable property and is subject to the limitations described above.

Source: Los Angeles County Office of Assessor

See accompanying independent auditors' report.

City of Long Beach
Property Tax Rates -
All Overlapping Governments
Per \$100 of Assessed Value -
Last Ten Fiscal Years

Fiscal Year-end	City Direct Rate	Overlapping Rates				Total
		Los Angeles County	Unified Schools	Community College	Special Districts	
1997	\$ 1.000000	\$ 0.001604	\$ -	\$ -	\$ 0.010891	\$ 1.012495
1998	1.000000	0.001584	-	-	0.011097	1.012681
1999	1.000000	0.001451	-	-	0.010853	1.012304
2000	1.000000	0.001422	0.007628	-	0.010665	1.019715
2001	1.000000	0.001314	0.015957	-	0.010352	1.027623
2002	1.000000	0.001128	0.028784	-	0.008773	1.038685
2003	1.000000	0.001000	0.035190	-	0.042800	1.078990
2004	1.000000	0.000992	0.042849	0.011705	0.006562	1.062108
2005	1.000000	0.000923	0.046671	0.012394	0.006045	1.066033
2006	1.000000	0.000795	0.040750	0.018569	0.005249	1.065363

Note:

In 1978, a State Constitutional Amendment (Proposition 13) provided that the tax rate be limited to 1% of market value, levied only by the county and shared with all other jurisdictions. All other jurisdictions and the county can levy a tax rate for voter-approved debt.

See accompanying independent auditors' report.

City of Long Beach
Principal Property Taxpayers
Current Year and Nine Fiscal Years Ago
(In Thousands)

Taxpayer	Fiscal Year 2006		Fiscal Year 1997	
	Assessed Valuation	Percent of Total Net Assessed Valuation	Assessed Valuation	Percent of Total Net Assessed Valuation
The Boeing Company	\$ 342,580	1.07 %	\$ 708,603	3.68 %
AES Alamitos LLC	288,300	0.90	-	-
GREIT One World Trade Center LP	115,921	0.36	-	-
Camden Realty Inc.	98,399	0.31	-	-
Trizechahn Colony Square GP LLC	85,300	0.27	-	-
350 Ocean Garage LLC	72,169	0.23	-	-
Coventry Long Beach Plaza LLC	71,482	0.22	-	-
1900 Ocean Partners Holdings LLC et.al.	70,487	0.22	-	-
Arco Terminal Services Corp.	68,736	0.21	51,351	0.27
Hughes Aircraft Company	64,431	0.20	50,046	0.26
Bixby Land Company	-	-	63,092	0.33
Pacific Towers Associates	-	-	50,022	0.26
Bixby Ranch Company	-	-	49,089	0.25
Landmark Square Associates	-	-	47,500	0.25
Carlyle Real Estate	-	-	45,724	0.24
Shoreline Square Management	-	-	37,310	0.19
Janss Tys Long Beach Associates	-	-	36,583	0.19
	<u>\$ 1,277,805</u>	<u>3.99 %</u>	<u>\$1,139,320</u>	<u>5.92 %</u>

Note:

Beginning with fiscal year 1989, the State Board of Equalization has deleted the public utility "unitary" values from the total public utility assessed value. The valuations exclude mineral rights, possessory interest and unsecured assessed valuations.

Source: California Municipal Statistics, Inc.

See accompanying independent auditors' report.

City of Long Beach
Property Tax Levies and Collections -
Last Ten Fiscal Years
(In Thousands)

Fiscal Year-end (1)	Total Tax Levy	Current Tax Collections	Percent of Levy Collected	Delinquent Tax Collections	Total Tax Collections (2)	Collections as Percent of Levy	Outstanding Delinquent Taxes	Delinquent Tax as Percent of Current Levy
1997	\$ 57,408	\$ 52,932	92.2 %	\$ 1,905	\$ 54,837	95.5 %	\$ 4,214	7.3 %
1998	58,522	56,504	96.6	3,185	59,689	102.0	3,755	6.4
1999	59,378	56,320	94.8	3,636	59,956	101.0	2,857	4.8
2000	66,177	63,892	96.5	2,989	66,881	101.1	2,873	4.3
2001	70,841	69,338	97.9	2,322	71,660	101.2	3,160	4.5
2002	77,731	77,587	99.8	3,682	81,269	104.6	2,536	3.3
2003 (3)	83,222	85,699	103.0	2,245	87,944	105.7	2,401	2.9
2004	100,538	99,745	99.2	8,634	108,379	107.8	2,489	2.5
2005	116,299	113,610	97.7	11,388	124,998	107.5	2,442	2.1
2006	139,172	130,147	93.5	12,093	142,240	102.2	3,217	2.3

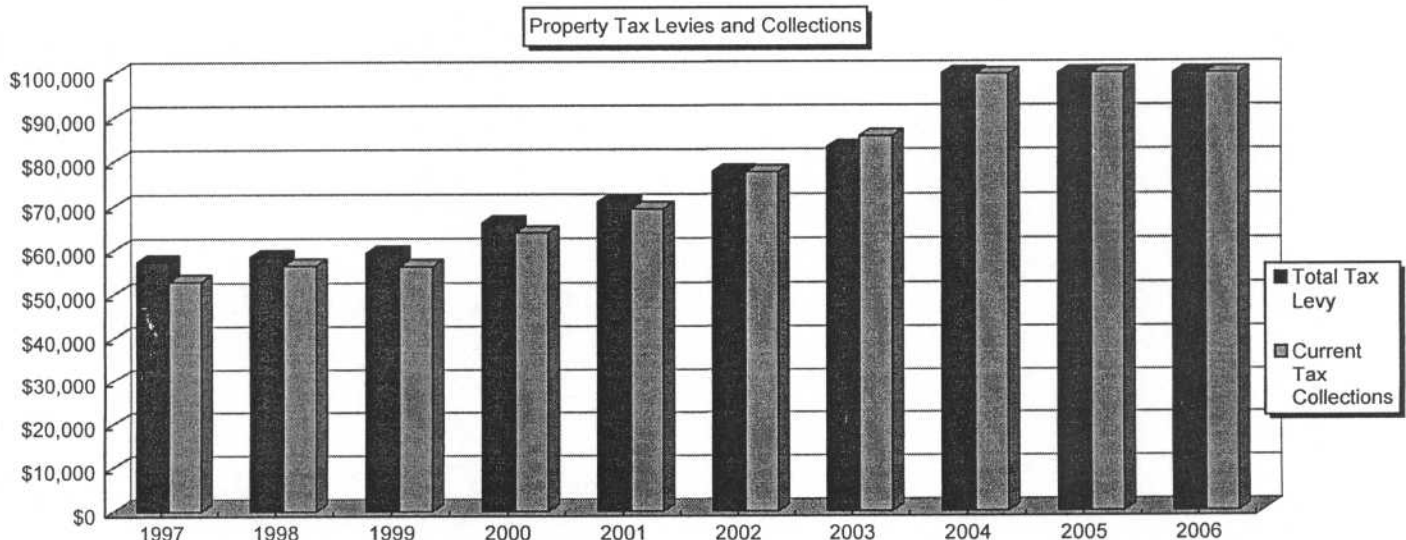
Notes:

(1) Total tax collections for fiscal years 1997 through 2006 include redevelopment tax increment collections, excluding interest and penalties, in accordance with generally accepted accounting principles as follows:

Fiscal Year-end	Collections (In Thousands)
1997	\$ 13,574
1998	15,593
1999	11,229
2000	18,061
2001	18,917
2002	25,796
2003	27,475
2004	41,718
2005	50,977
2006	63,406

(2) Excludes interest, penalties and Los Angeles County administrative cost.

(3) Fiscal year 2003 current tax collections includes approximately \$2,870,000 in unsecured redevelopment tax increment receipts which resulted from a secured parcel audit for the entire City and its redevelopment areas for the fiscal years 1998 through 2002. The audit resulted in the correction of misallocated tax rate areas.



Source: City of Long Beach, Department of Financial Management.

See accompanying independent auditors' report.

City of Long Beach
Ratios of Outstanding Debt by Type
Last Ten Fiscal Years
(In Thousands, Except Per Capita Amount)

Fiscal Year-end	Governmental Activities						Total Governmental Activities			
	Revenue Bonds	Tax Allocation Bonds	Certificates of Participation (1)	Notes Payable	Capital Leases	Other				
1997	\$ 127,700	\$ 134,640	\$ 19,450	\$ 28,775	\$ 38,035	\$ 63,226	\$ 411,826			
1998	189,385	134,925	-	24,480	36,225	58,996	444,011			
1999	185,890	132,115	-	25,397	34,031	58,972	436,405			
2000	184,675	129,160	-	27,375	32,066	57,943	431,219			
2001	191,085	121,480	-	31,160	30,421	55,322	429,468			
2002	243,375	174,060	-	17,609	45,679	52,156	532,879			
2003	244,465	179,974	-	18,757	42,649	44,535	530,380			
2004	249,290	175,292	-	9,269	40,682	42,400	516,933			
2005	242,685	355,444	-	11,971	31,957	37,962	680,019			
2006	231,470	348,626	-	11,146	35,131	34,996	661,369			

Fiscal Year-end	Business-type Activities						Total Primary Government	Percentage of Personal Income (3) and (4)	Per Capita (3)
	Revenue Bonds	Certificates of Participation	Notes Payable (2)	Capital Leases	Other	Total Business-type Activities			
1997	\$ 992,775	\$ 21,405	\$ 212,877	\$ 20,176	\$ 34,631	\$ 1,281,864	\$ 1,693,690	2.219 %	\$ 3,834
1998	959,960	20,930	230,431	18,855	57,427	1,287,603	1,731,614	2.092	3,881
1999	977,230	20,195	177,257	17,416	32,786	1,224,884	1,661,289	1.920	3,668
2000	941,860	19,425	145,794	15,851	177,373	1,300,303	1,731,522	1.861	3,765
2001	1,308,845	18,620	147,810	14,244	266,100	1,755,619	2,185,087	2.234	4,676
2002	1,582,180	17,785	82,527	12,805	267,613	1,962,910	2,495,789	2.493	5,275
2003	1,542,800	16,905	85,808	11,223	270,376	1,927,112	2,457,492	2.355	5,116
2004	1,491,930	15,985	89,581	9,484	316,100	1,923,080	2,440,013	2.189	5,009
2005	1,409,610	15,025	188,150	7,572	328,700	1,949,057	2,629,076	2.312	5,348
2006	1,367,640	9,960	104,958	6,119	343,100	1,831,777	2,493,146	N/A	5,058

Note:
Details regarding the City's outstanding debt can be found in the notes to the financial statements.

(1) In fiscal year 1998 the City issued \$38,065,000 in revenue bonds to advance refund the outstanding Fleet Services Certificates of Participation reported in the governmental activities and to provide additional funding for a new fleet facility.

(2) Notes payable in fiscal year 2005 included \$97,354,000 abandonment reserve payable to the California State Lands Commission.

(3) See Schedule of Demographic and Economic statistics for personal income and population data.

(4) Personal income is not available for 2006.

See accompanying independent auditors' report.

City of Long Beach
Ratio of General Bonded Debt Outstanding
Last Ten Fiscal Years
(In Thousands, except Per Capita)

Fiscal Year-end	Outstanding General Bonded Debt			Ratio of Net Bonded Debt to Assessed Value (2)	Per Capita (3)
	Tax Allocation Bonds	Less Debt Service Reserve (1)	Net Bonded Debt (1)		
1997	\$ 134,640	\$ 14,427	\$ 120,213	0.56 %	\$ 272.15
1998	134,925	18,635	116,290	0.54	260.61
1999	132,115	16,756	115,359	0.54	254.71
2000	129,160	17,925	111,235	0.51	243.08
2001	121,480	17,522	103,958	0.44	225.25
2002	174,060	22,016	152,044	0.61	321.36
2003	179,974	20,989	158,985	0.60	330.55
2004	175,292	26,258	149,034	0.50	305.96
2005	355,444	39,059	316,385	0.99	643.63
2006	348,626	36,936	311,690	0.88	632.34

(1) Includes Redevelopment bonds issued during fiscal years 1993, 2002, 2003 and 2005.

(2) Assessed Value can be found in the Schedule of Assessed Value and Actual Value of Taxable Property.

(3) Population data can be found in the Schedule of Demographic and Economic Statistics.

See accompanying independent auditors' report.

City of Long Beach
Schedule of Direct and Overlapping Debt
September 30, 2006
(In Thousands)

<u>DIRECT DEBT:</u>		<u>Outstanding</u>	<u>Exclusions</u>	<u>Outstanding</u>
City of Long Beach				
Lease Revenue Bonds (1)		\$ 255,120	\$ (107,695)	\$ 147,425
Marks-Roos Bonds (2)		33,045	-	33,045
Certificates of Participation		-	-	-
Pension Obligations		89,465	-	89,465
Total Direct Debt		377,630	(107,695)	269,935
<u>OVERLAPPING TAX AND ASSESSMENT DEBT:</u>				
	<u>% Applicable</u>			
Los Angeles County	3.776 %	8,395	(8,078)	317
Los Angeles Community College District	0.048	655,200	(654,886)	314
Cerritos Community College District	0.399	66,191	(65,927)	264
Compton Community College District	2.112	38,325	(37,516)	809
Long Beach Community College District	88.064	98,950	(11,811)	87,139
Compton Unified School District	0.026	80,330	(80,309)	21
ABC Unified School District	1.528	54,615	(53,780)	835
Long Beach Unified School District	88.066	247,115	(29,491)	217,624
Los Angeles Unified School District	0.059	5,953,365	(5,949,853)	3,512
Paramount Unified School District	8.367	32,935	(30,179)	2,756
Los Angeles County Flood Control District	3.773	127,840	(123,017)	4,823
Metropolitan Water District	1.907	389,565	(382,136)	7,429
Total Overlapping Tax And Assessment Debt (3)		7,752,826	(7,426,983)	325,843
<u>OVERLAPPING GENERAL FUND OBLIGATION DEBT:</u>				
Los Angeles County General Fund Obligations	3.776	1,204,559	(1,159,075)	45,484
Los Angeles County Pension Obligations	3.776	737,082	(709,250)	27,832
Los Angeles County Superintendent of Schools Certificates of Participation	3.776	19,817	(19,069)	748
Long Beach Community College District Certificates of Participation	88.064	34,300	(4,094)	30,206
Los Angeles Unified School District Certificates of Participation	0.059	414,084	(413,840)	244
Long Beach Unified School District Certificates of Participation	88.066	58,655	(7,000)	51,655
Compton Unified School District Certificates of Participation	0.026	29,565	(29,558)	7
Paramount Unified School District Certificates of Participation	8.367	29,310	(26,858)	2,452
County Sanitation District No. 1 Certificates of Participation	1.047	26,692	(26,413)	279
County Sanitation District No. 2 Certificates of Participation	0.152	41,215	(41,152)	63
County Sanitation District No. 3 Certificates of Participation	84.098	31,317	(4,980)	26,337
County Sanitation District No. 8 Certificates of Participation	2.228	16,308	(15,945)	363
County Sanitation District No. 19 Certificates of Participation	37.630	7,424	(4,631)	2,793
Total Overlapping General Fund Obligation Debt		2,650,328	(2,461,865)	188,463
Total Gross Overlapping Combined Debt		10,403,154	(9,888,848)	514,306
Less: Los Angeles County Certificates of Participation (100% self-supporting from leasehold revenues on properties in Marina Del Rey)		(5,712)	(5,709)	(3)
Total Net Overlapping Combined Debt		10,397,442	(9,883,139)	514,303
Total Net Direct And Overlapping Combined Debt (3) (4)		\$ 10,775,072	\$ (9,990,834)	\$ 784,238

Notes:

- (1) The lease revenue bonds amount is net of the Civic Center Project 1997 Series A \$970,000 principal payment paid to the trustee on September 15, 2006 as required by the bond resolution for principal due to bondholders on October 1, 2006.
- (2) The Marks-Roos Bonds amount is net of the Temple and Willow Facility 1998 Series A & B Bonds \$625,000 principal payment paid to the trustee on September 15, 2006 as required by the bond resolution for principal due to bondholders on October 1, 2006. Includes Temple and Willow Facility 2005 Series A Bonds.
- (3) Excludes 1915 Act and Mello-Roos Act bonds.
- (4) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Source: California Municipal Statistics, Inc.

See accompanying independent auditors' report.

City of Long Beach
Legal Debt Margin Information
Last Ten Fiscal Years
(In Thousands)

	Fiscal Year				
	1997	1998	1999	2000	2001
Assessed valuation	\$ 21,427,957	\$ 21,403,042	\$ 21,515,605	\$ 21,832,600	\$ 23,688,371
Conversion percentage	25%	25%	25%	25%	25%
Adjusted assessed valuation	5,356,989	5,350,761	5,378,901	5,458,150	5,922,093
Debt limit percentage	15%	15%	15%	15%	15%
Debt limit	803,548	802,614	806,835	818,723	888,314
Total net debt applicable to limit: General obligation bonds	-	-	-	-	-
Legal debt margin	<u>\$ 803,548</u>	<u>\$ 802,614</u>	<u>\$ 806,835</u>	<u>\$ 818,723</u>	<u>\$ 888,314</u>
Total debt applicable to the limit as a percentage of debt limit	0%	0%	0%	0%	0%

	Fiscal Year				
	2002	2003	2004	2005	2006
Assessed valuation	\$ 24,989,993	\$ 26,454,417	\$ 29,613,229	\$ 32,069,711	\$ 35,519,905
Conversion percentage	25%	25%	25%	25%	25%
Adjusted assessed valuation	6,247,498	6,613,604	7,403,307	8,017,428	8,879,976
Debt limit percentage	15%	15%	15%	15%	15%
Debt limit	937,125	992,041	1,110,496	1,202,614	1,331,996
Total net debt applicable to limit: General obligation bonds	-	-	-	-	-
Legal debt margin	<u>\$ 937,125</u>	<u>\$ 992,041</u>	<u>\$ 1,110,496</u>	<u>\$ 1,202,614</u>	<u>\$ 1,331,996</u>
Total debt applicable to the limit as a percentage of debt limit	0%	0%	0%	0%	0%

The Government Code of the State of California provides for a legal debt limit of 15% of gross assessed valuation. This provision was enacted when assessed valuation was based on 25% of market value. Effective with fiscal year 1982 each parcel is assessed at 100% of market value (as of the most recent change in ownership for that parcel). The computations shown above reflect a conversion of assessed valuation data for each fiscal year from the current full valuation perspective to the 25% level that was in effect at the time that the legal debt margin was enacted by the State of California for local governments located within the state.

Source: City of Long Beach, Department of Financial Management
County of Los Angeles, Department of Auditor-Controller

See accompanying independent auditors' report.

City of Long Beach
Pledged Revenue Coverage
Gas Fund Revenue Bond Coverage
Last Ten Fiscal Years
(In Thousands)

Fiscal Year-end (1)	Operating Revenue	Operating Expenses (1)	Net Operating Income	Non- Operating Income (1)	Net Revenue or Funds Available for Debt Service	Debt Service Requirements			Times Coverage
						Principal	Interest	Total	
1997	\$ 66,455	\$ 46,975	\$ 19,480	\$ 1,969	\$ 21,449	\$ 475	\$ 580	\$ 1,055	20.3
1998	69,511	49,492	20,019	2,251	22,270	495	563	1,058	21.0
1999	75,654	47,757	27,897	2,004	29,901	510	545	1,055	28.3
2000	70,874	56,478	14,396	1,511	15,907	530	524	1,054	15.1
2001	124,691	118,667	6,024	1,855	7,879	550	502	1,052	7.5
2002	62,301	51,289	11,012	1,004	12,016	575	478	1,053	11.4
2003	75,323	64,331	10,992	738	11,730	600	452	1,052	11.2
2004	83,752	73,059	10,693	5,360	16,053	625	424	1,049	15.3
2005	98,998	84,109	14,889	5,858	20,747	655	394	1,049	19.8
2006	107,481	96,786	10,695	5,807	16,502	655	394	1,049	15.7

Water Fund Revenue Bond Coverage
Last Ten Fiscal Years
(In Thousands)

1997	\$ 60,247	\$ 45,122	\$ 15,125	\$ 3,095	\$ 18,220	\$ 1,045	\$ 2,627	\$ 3,672	5.0
1998	56,395	42,932	13,463	3,130	16,593	1,125	2,539	3,664	4.5
1999	57,619	43,854	13,765	6,043	19,808	1,325	2,247	3,572	5.5
2000	60,252	46,508	13,744	1,066	14,810	1,385	2,194	3,579	4.1
2001	57,773	46,526	11,247	4,554	15,801	1,450	2,138	3,588	4.4
2002	58,969	48,324	10,645	1,616	12,261	1,505	2,080	3,585	3.4
2003	58,944	44,653	14,291	1,162	15,453	1,570	2,019	3,589	4.3
2004	63,185	47,752	15,433	2,055	17,488	1,645	1,954	3,599	4.9
2005	64,522	50,146	14,376	1,710	16,086	1,110	1,884	2,994	5.4
2006	66,074	53,059	13,015	1,564	14,579	1,110	1,884	2,994	4.9

Solid Waste Management Fund
SERRF Authority Revenue Bond Coverage
Last Ten Fiscal Years (2)
(In Thousands)

1997	\$ 73,745	\$ 49,418	\$ 24,327	\$ 4,882	\$ 29,209	\$ -	\$ 9,623	\$ 9,623	3.0
1998	75,034	49,056	25,978	5,043	31,021	-	9,623	9,623	3.2
1999	66,486	49,643	16,843	2,886	19,729	3,000	9,623	12,623	1.6
2000	65,005	52,409	12,596	5,004	17,600	3,400	9,307	12,707	1.4
2001	71,188	59,387	11,801	6,219	18,020	3,700	9,069	12,769	1.4
2002	67,931	58,441	9,490	5,376	14,866	3,900	8,814	12,714	1.2
2003	69,441	55,073	14,368	(6,332)	8,036	4,200	5,088	9,288	0.9
2004	71,198	56,169	15,029	(2,424)	12,605	4,500	4,914	9,414	1.3
2005	70,128	58,046	12,082	1,819	13,901	6,185	4,985	11,170	1.2
2006	78,173	65,218	12,955	5,385	18,340	6,185	4,985	11,170	1.6

Notes:

- (1) Operating expenses exclude depreciation; non-operating income excludes interest expense.
- (2) The SERRF Authority issued revenue bonds on December 1, 1985, and August 1 and December 1, 1986. According to the December 1, 1986 bond resolution interest was funded from bond proceeds through August, 1989. These bonds were refunded by the SERRF Authority Lease Revenue refunding Bond Series 1995. Current debt service payments for the previous issues were covered by the 1995 refunding issue proceeds. The 1995 refunding bonds were refunded by the SERRF Authority Lease Revenue Bonds Series 2003 in October 2003.

Source: City of Long Beach, Department of Financial Management.

See accompanying independent auditors' report.

City of Long Beach
Pledged Revenue Coverage
Civic Center Revenue Bond Coverage
Last Ten Fiscal Years (2)
(In Thousands)

Fiscal Year-end	Operating Revenue (2)	Operating Expenses (1) and (2)	Net Operating Income	Non- Operating Income (Loss) (1) and (2)	Net Revenue or Funds Available for Debt Service	Debt Service Requirements			Times Coverage
						Principal	Interest	Total	
1997	\$ 10,313	\$ 5,142	\$ 5,171	\$ 826	\$ 5,997	\$ 1,560	\$ 1,176	\$ 2,736	2.2
1998	10,272	5,807	4,465	6,510	10,975	720	1,808	2,528	4.3
1999	10,207	5,859	4,348	424	4,772	795	2,091	2,886	1.7
2000	10,178	6,549	3,629	2,047	5,676	875	2,087	2,962	1.9
2001	10,314	5,988	4,326	1,877	6,203	915	2,048	2,963	2.1
2002	11,805	7,509	4,296	1,203	5,499	950	2,008	2,958	1.9
2003	11,749	6,515	5,234	675	5,909	850	1,965	2,815	2.1
2004	11,899	6,893	5,006	378	5,384	885	1,929	2,814	1.9
2005	10,867	6,549	4,318	432	4,750	925	1,891	2,816	1.7
2006	10,080	4,074	6,006	552	6,558	970	1,851	2,821	2.3

Fleet Services Fund
Temple Willow Revenue Bond Coverage
Last Nine Fiscal Years
(In Thousands)

1998	\$ 19,666	\$ 14,256	\$ 5,410	\$ (58)	\$ 5,352	\$ -	\$ 784	\$ 784	6.8
1999	21,644	13,818	7,826	1,642	9,468	605	1,882	2,487	3.8
2000	22,891	15,019	7,872	1,288	9,160	630	1,858	2,488	3.7
2001	24,560	15,181	9,379	2,168	11,547	655	1,832	2,487	4.6
2002	27,101	14,942	12,159	674	12,833	680	1,806	2,486	5.2
2003	26,382	14,258	12,124	52	12,176	710	1,778	2,488	4.9
2004	24,684	15,557	9,127	656	9,783	740	1,749	2,489	3.9
2005	25,900	17,399	8,501	1,809	10,310	770	1,717	2,487	4.1
2006	26,926	18,598	8,328	789	9,117	940	1,526	2,466	3.7

Notes:

- (1) Operating expenses exclude depreciation; non-operating income excludes interest expense.
- (2) The Civic Center Authority was dissolved in December 1997. The Civic Center Project 1997 Bonds were issued in December 1997 to refund the Civic Center Authority Bonds and to provide additional project funds for improvements. The 1998 Non-Operating Income consists of \$4.6 million in miscellaneous revenues as a result of the Civic Center Authority dissolution.

Source: City of Long Beach, Department of Financial Management.

See accompanying independent auditors' report.

City of Long Beach
Pledged Revenue Bond Coverage
Tideland Operating Segment
Revenue Bond Coverage
Last Six Fiscal Years (2)
(In Thousands)

Fiscal Year-end	Beginning Unreserved Fund Balance	Operating Revenue	Operating Expenses (1)	Net Operating Income (Loss)	Non - Operating Income (Loss) (1)	Net Amount Available for Debt Service	Debt Service Requirements			Times Coverage
							Principal	Interest	Total	
2001	\$ N/A	\$ 19,240	\$ 20,746	\$ (1,506)	\$ 2,952	\$ 1,446	\$ 905	\$ 84	\$ 989	-
2002	N/A	27,783	37,623	(9,840)	5,724	(4,116)	1,000	2,761	3,761	-
2003	N/A	31,699	37,496	(5,797)	2,088	(3,709)	-	6,558	6,558	-
2004	N/A	32,390	37,600	(5,210)	1,815	(3,395)	-	6,558	6,558	-
2005	N/A	33,593	43,633	(10,040)	1,679	(8,361)	-	6,558	6,558	-
2006	N/A	48,859	57,923	(9,064)	3,658	(5,406)	-	6,558	6,558	-

Marina Segment
Marina Revenue Bond Coverage
Last Ten Fiscal Years (3)
(In Thousands)

1997	\$ 3,279	13,056	10,716	\$ 2,340	\$ 294	\$ 5,913	\$ 2,150	1,500	\$ 3,650	1.6
1998	1,338	13,975	11,171	2,804	(83)	4,059	2,240	1,411	3,651	1.1
1999	821	13,940	10,617	3,323	358	4,502	2,335	1,316	3,651	1.2
2000	3,310	14,055	11,017	3,038	1,830	8,178	2,435	1,214	3,649	2.2
2001	1,014	14,995	10,727	4,268	(79)	5,203	2,545	1,107	3,652	1.4
2002	974	15,564	10,812	4,752	470	6,196	2,660	991	3,651	1.7
2003	1,412	16,171	10,293	5,878	(370)	6,920	2,785	867	3,652	1.9
2004	1,851	16,223	10,759	5,464	571	7,886	2,915	734	3,649	2.2
2005	1,950	16,008	11,395	4,613	300	6,863	3,060	592	3,652	1.9
2006	(3,399)	16,691	11,972	4,719	377	1,697	3,145	436	3,581	0.5

Notes:

- (1) Operating expenses exclude depreciation; non-operating income excludes interest expense.
- (2) The Long Beach Aquarium of the Pacific Lease Revenue Refunding Bonds Series 2001 were issued to (1) refund the Long Beach Aquarium of the Pacific Revenue Bonds 1995 Series A and 1995 Series B, (2) to fund a reserve fund for the Series 2001 Bonds, and (3) to pay certain costs of issuance in connection with the Series 2001 Bonds. Fiscal year 2001 reflects final bond payment of \$1,000,000 for the Parking Authority Refunding bonds.
- (3) The Marina Refunding Revenue Bonds Series 1986 were refunded by the Marina Refunding Revenue Bonds Series 1995. Current debt service payments for the 1986 Bonds were covered by the 1995 refunding issue proceeds.

Source: City of Long Beach, Department of Financial Management.

See accompanying independent auditors' report.

City of Long Beach
Pledged Revenue Coverage
Rainbow Harbor Area Segment
Revenue Bond Coverage
Last Eight Fiscal Years (2)
(In Thousands)

Fiscal Year-end	Operating Revenue	Operating Expenses (1)	Net Operating Income (Loss)	Non- Operating Income (1) (Loss)	Net Revenue Available for Debt Service	Debt Service Requirements			Times Coverage
						Principal	Interest	Total	
1999	\$ 3,779	\$ 3,589	\$ 190	\$ 501	\$ 691	\$ -	\$ -	\$ -	-
2000	2,036	3,572	(1,536)	429	(1,107)	-	-	-	-
2001	2,170	3,808	(1,638)	372	(1,266)	-	2,440	2,440	-
2002	2,486	3,799	(1,313)	384	(929)	65	2,440	2,505	-
2003	2,672	3,740	(1,068)	596	(472)	80	2,437	2,517	-
2004	4,609	5,537	(928)	154	(774)	90	2,434	2,524	-
2005	5,386	8,897	(3,511)	337	(3,174)	1,455	2,430	3,885	-
2006	6,404	8,728	(2,324)	338	(1,986)	1,515	2,369	3,884	-

Harbor Fund
Revenue Bond Coverage
Last Ten Fiscal Years
(In Thousands)

1997	\$177,230	\$36,874	\$ 140,356	\$15,189	\$155,545	\$ 16,620	\$ 47,384	\$64,004	2.4
1998	188,587	38,238	150,349	16,635	166,984	18,690	42,371	61,061	2.7
1999	198,483	39,952	158,531	5,220	163,751	22,680	44,637	67,317	2.4
2000	225,504	45,286	180,218	3,436	183,654	26,715	39,806	66,521	2.8
2001	228,079	50,573	177,506	14,080	191,586	28,290	46,165	74,455	2.6
2002	223,999	40,085	183,914	6,386	190,300	17,960	51,239	69,199	2.8
2003	249,542	45,394	204,148	(2,524)	201,624	30,145	60,757	90,902	2.2
2004	280,782	59,755	221,027	12,987	234,014	32,590	60,474	93,064	2.5
2005	329,208	66,737	262,471	26,524	288,995	34,215	58,444	92,659	3.1
2006	353,294	80,328	272,966	27,741	300,707	34,935	54,556	89,491	3.4

Notes:

- (1) Operating expenses exclude depreciation and amortization; non-operating income excludes amortization and interest expense.
- (2) The Rainbow Harbor Area Segment of the Tidelands Fund fund balance is considered adequate to cover the debt service. Operating transfers are made to provide funding to the Rainbow Harbor Area from other Tidelands funds on an as needed basis.

Source: City of Long Beach, Department of Financial Management.

See accompanying independent auditors' report.

City of Long Beach
Demographic Statistics
Last Ten Fiscal Years

Fiscal Year-end	Estimated Population (1)	Personal Income (in millions) (2) and (5)	Per Capita Personal Income (2) and (5)	Public School Enrollment (3)	Unemployment Rate (4)
1997	441,718	\$ 7,633	\$ 17,281	91,932	6.6 %
1998	446,227	8,278	18,552	89,408	6.2
1999	452,905	8,651	19,160	91,465	5.6
2000	459,900	9,302	20,227	94,527	5.5
2001	467,300	9,782	20,934	95,193	5.7
2002	473,100	10,013	21,164	97,369	6.3
2003	480,400	10,437	21,726	97,370	6.4
2004	487,100	11,146	22,883	97,560	5.9
2005	491,564	11,370	23,266	96,319	6.5
2006	492,912	N/A	N/A	93,589	5.3

Sources:

(1) California Department of Finance.

(2) Bureau of Economic Analysis.

Personal income and per capita personal income for 1997, 1998, and 2000-2004 are based on percent change of per capita personal income for Los Angeles-Long Beach-Santa Ana, CA (Metropolitan Statistical Area).

(3) California Department of Education. Annual school census from Long Beach Unified School District for preschool, grades kindergarten through 12.

(4) Average annual rate reported by California Employment Development Department.

(5) Personal income and per capita personal income are not available for 2006.

See accompanying independent auditors' report.

City of Long Beach
Principal Employers
Current Year and Nine Years Ago

Employer	Fiscal Year 2006		Fiscal Year 1997	
	Number of Employees (1)	Percentage of Total City Employment (2)	Number of Employees (1)	Percentage of Total City Employment (2)
Long Beach Unified School District	9,064	3.90%	11,887	5.67%
The Boeing Co	6,525	2.81%	19,808	9.46%
California State University Long Beach (3)	6,007	2.59%	2,755	1.32%
City of Long Beach	5,854	2.52%	5,605	2.68%
Long Beach Memorial Medical Center	3,500	1.51%	3,876	1.85%
Verizon	2,000	0.86%	N/A	N/A
Long Beach City College	2,000	0.86%	1,518	0.72%
U.S. Postal Service	1,900	0.82%	910	0.43%
Veterans Affairs Medical Center	1,700	0.73%	2,278	1.09%
St. Mary Medical Center	1,634	0.70%	1,779	0.85%

Sources:

(1) City of Long Beach Community Development Long Beach Major Employer Directory-current listing

(2) US Census Bureau Labor Force as of 2005

(3) Includes 1,011 part-time employees

See accompanying independent auditors' report.

City of Long Beach
City Employees
Last Three Fiscal Years

Function	Fiscal Year		
	2004	2005	2006
Legislative and Legal	140	139	143
General Government	469	433	447
Public Safety	2,121	2,125	2,143
Public Health	435	414	399
Community and Cultural	1,103	1,119	1,100
Public Works	370	375	373
Gas	177	169	178
Water	230	215	217
Airport	71	85	90
Solid Waste Management	125	134	143
Towing	45	42	38
Tideland Oil Revenue	38	35	34
Harbor	335	327	337
	<u>5,659</u>	<u>5,612</u>	<u>5,642</u>

Source: City of Long Beach, Department of Financial Mangement

See accompanying independent auditors' report.

City of Long Beach
Operating Indicators by Function
Current Fiscal Year

Function	Fiscal Year 2006
Public Safety	
Police priority one calls response time in minutes	4.5
Violent crime rate - per 1,000 residents	6.99
Fire on-scene arrival for emergency calls within six minutes	73.6%
Public Health	
Percentage of beach days that are safe for swimming in summer	94%
Daily homeless population ratio vs. total population	0.91%
Community and Cultural	
Public library computer session log-ons	305,130
Parks, recreation programs - youth and teen attendance	647,705
Public Works	
Number of trees trimmed	28,401
Curbs & alleys swept in miles	165,706
Sidewalk repaired in square feet	436,505
Storm drain catch basins cleaned	5,110
Gas	
Gas consumption in sales dollars-total	\$ 100,336,000
Gas consumption in cubic feet (in thousands)	1,065,974
Average daily gas consumption (MCF)	30,186
Gas mains replace/relocated in feet	60,496
Gas mains installed in feet	22,590
Gas meters installed/removed/replaced	6,880
Water	
Water daily demand in thousand gallons	59,317
Water annual demand in thousand gallons	21,650,844
Available supply total in thousand gallons	23,607,579
Sewer	
Sewer mains cleaned in miles	474
Sewer mains & laterals repaired in number of jobs	296
Airport	
Number of commercial passengers enplaned	1,412,636
Number of commercial passengers deplaned	1,402,379
Number of aircraft landings & take offs	360,811
Solid Waste Management	
Number of refuse tons collected	216,725
Number of recycling tons collected	31,413
SERRF tons of refuse received	495,794
SERRF energy sold to So Cal Edison megawatt-hours	236,384
Harbor	
Number of container movements in twenty-foot equivalent units	7,166,771
Cargo in thousands of metric revenue tons	168,416
Number of ship calls	5,588

Sources: City Departments

See accompanying independent auditors' report.

City of Long Beach
Capital Asset Statistics by Function
Current Fiscal Year

Function	Fiscal Year 2006
Public Safety	
Number of police stations	1
Number of police substations (full facility)	2
Number of police storefront stations	4
Number of fire stations	23
Community and Cultural	
Number of Parks	115
Parks and Golf Courses in acres	2,855
Number of Libraries	12
Number of Library holdings (books, videos, tapes)	984,727
Number of Library Circulations	1,396,443
Public Works	
Street in miles	815
Storm drain lines in miles	180
Number of street lights	31,582
Gas	
Gas mains in miles	921.5
Water	
Water mains in miles	907
Number of fire hydrants	6,505
Sewer	
Sanitary sewers in miles	712
Number of manholes	16,044
Sanitary sewer pump stations	28
Storm drain pump stations	23
Solid Waste Management	
Number of waste-to-energy facilities	1

Sources: City Departments

See accompanying independent auditors' report.

THE HARBOR DEPARTMENT, AN ENTERPRISE FUND OF THE CITY OF LONG
BEACH, CALIFORNIA

Financial Statements
September 30, 2006 and 2005

Richard D. Steinke
Executive Director

Sam A. Joumbat
Chief Financial Officer

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**The Harbor Department of the City of Long Beach
Management's Discussion and Analysis
September 30, 2006 and 2005**

As management of the Harbor Department of the City of Long Beach, California (the Department), we offer readers of the financial statements this discussion and analysis of the financial activities for the fiscal years ended September 30, 2006 and 2005.

Overview of the financial statements

The Department's financial statements include the Statements of Net Assets, the Statements of Revenues, Expenses, and Changes in Fund Net Assets, the Statements of Cash Flows, and the Notes to the Financial Statements. This discussion is intended to serve as an introduction to the Department's financial statements.

Condensed financial position information

The Statements of Net Assets presents information concerning the Department's assets, liabilities, and net assets.

The following condensed financial information provides an overview of the Department's financial position as of September 30 of 2006, 2005, and 2004.

SUMMARY OF NET ASSETS SEPTEMBER 30, 2006, 2005, AND 2004			
ASSETS	2006	2005	2004
Assets:			
Capital assets, net	\$ 2,191,431,430	\$ 2,223,194,894	\$ 2,240,011,817
	1,031,344,40		
Other assets	5	847,125,542	791,361,452
TOTAL ASSETS	3,222,775,835	3,070,320,436	3,031,373,269
Liabilities:			
Long-term obligations, net of current portion	1,096,106,131	1,135,331,023	1,221,787,948
Current liabilities	144,523,850	106,838,907	123,656,653
TOTAL LIABILITIES	1,240,629,981	1,242,169,930	1,345,444,601
Net assets:			
Invested in capital assets, net of related debt	1,079,606,148	1,080,335,939	1,045,167,222
Restricted	317,730,496	306,321,367	285,386,351
Unrestricted	584,809,209	441,493,200	355,375,095
TOTAL NET ASSETS	\$ 1,982,145,853	\$ 1,828,150,506	\$ 1,685,928,668

Analysis fiscal year 2006

The assets of the Department exceeded its liabilities at the close of the 2006 fiscal year by \$1,982,145,853 (*net assets*). Total net assets increased by \$153,995,347. This change consists mainly of \$192,288,132 of operating income, \$4,301,663 of income from equity in a joint venture, \$6,125,571 of income from oil operations, and \$2,298,184 of income derived from grants received from federal and State governments; less \$49,626,371 from other non-operating expenses including financing costs, and \$1,391,832 in losses resulting from the disposition of capital assets.

Other assets increase from previous year is mostly due to a \$169,504,744 increase in pooled cash and cash equivalents; directly related to the increase in operating income, and additional

**The Harbor Department of the City of Long Beach
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contributions to various reserve accounts held by the Port.

The Department's investment in capital assets (land; structures and facilities; furniture, fixtures, and equipment; construction in progress; and rights-of-way) less any related debt is \$1,079,606,148 or 54% of the aggregate net assets. Capital assets facilitate tenants' cargo operations and the Department does not intend to liquidate them to fund ongoing port operations.

The Department holds \$317,730,496 of net assets subject to external restrictions, an increase of \$11,409,129 when compared to last year. This increase consists mainly of contributions and interest earnings added to funds restricted for non-related party debt service contingency and matching contribution for future federally funded projects and to funds restricted for capital projects. Restricted net assets are 16% of the Department's total net assets and are presented in the Statement of Net Assets as restricted net assets.

At the end of the current fiscal year, the Department reported unrestricted net assets of \$584,809,209 an increase of \$143,316,008 when compared to last year. This increase consists mainly of current year net income of \$153,995,347, less \$3,000,000 used to fund an insurance reserve, and \$11,400,000 provided to purchase additional environmental mitigation credits. A set-aside fund of \$104,025,687 earmarked to fund environmental protection projects is an integral part of the unrestricted assets. Unrestricted net assets represent 30% of the Department's aggregate net assets, and are not subject to external restrictions. Such unrestricted net assets are available to fund the Department's continuing obligations.

Analysis fiscal year 2005

The assets of the Department exceeded its liabilities at the close of the 2005 fiscal year by \$1,828,150,506 (*net assets*). Total net assets increased by \$142,221,838. This change consists mainly of \$180,438,209 of operating income, \$3,535,373 of income from equity in a joint venture, \$13,540,959 of income from Harbor oil operation, and \$2,208,461 of grant income received from federal and State governments; less \$57,101,426 from non-operating expenses including financing costs, and \$399,737 in losses resulting from the disposition of capital assets.

The Department's investment in capital assets (land; structures and facilities; furniture, fixtures, and equipment; construction in progress; and rights-of-way) less any related debt is \$1,080,335,939 or 59% of the aggregate net assets.

The Department holds \$306,321,367 of net assets subject to external restrictions, an increase of \$20,935,016 when compared to last year. This increase consists mainly of \$20,152,791 restricted for repayment of long-term debt. Restricted net assets are 17% of the Department's total net assets. They are presented in the Statement of Net Assets as restricted net assets.

At the end of the current fiscal year, the Department reported unrestricted net assets of \$441,493,200 an increase of \$86,118,105 when compared to last year. This increase consists mainly of current year net income of \$142,221,838, less \$3,000,000 used to fund an insurance reserve, and additional funds provided to current refund the 1995 Harbor Revenue bonds. A set-aside fund of \$100,000,000 needed to fund environmental protection projects is an integral part of the unrestricted assets. Unrestricted net assets represent 24% of the Department's aggregate net assets, and are not subject to external restrictions. Such unrestricted net assets are available to fund the Department's continuing obligations.

Summary of operations and changes in net assets

The Statements of Revenues, Expenses, and Changes in Fund Net Assets illustrate the Department's change in net assets from prior to current fiscal year. These changes are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of

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related cash flows. Thus, some revenues and expenses reported in this statement will only affect future period cash flows, e.g.: uncollected receivables and earned, but unused, vacation leave. The table below summarizes the operations for fiscal years 2006, 2005, and 2004.

**CHANGES IN FUND NET ASSETS
YEARS ENDED SEPTEMBER 30, 2006, 2005, AND 2004**

	2006	2005	2004
Operating revenues:			
Berth and special facilities	\$ 337,675,886	\$ 314,563,390	\$ 267,455,834
Miscellaneous	15,618,591	14,644,072	13,325,847
Total operating revenues	353,294,477	329,207,462	280,781,681
Operating expenses:			
Facility and infrastructure	(54,341,201)	(42,905,834)	(36,632,411)
General and administrative	(21,199,838)	(19,109,527)	(17,575,004)
Depreciation and amortization	(85,465,306)	(86,753,892)	(82,920,766)
Total operating expenses	(161,006,345)	(148,769,253)	(137,128,181)
Operating income	192,288,132	180,438,209	143,653,500
Nonoperating revenues (expenses):			
Intergovernmental	(14,222,184)	(9,499,689)	(6,850,777)
Interest expense, net of revenues	(25,807,784)	(39,483,440)	(47,094,335)
Income from oil operations	6,125,571	13,540,959	1,806,653
Loss on disposition of capital assets	(1,391,832)	(399,737)	(93,464)
Income from equity in joint venture	4,301,663	3,535,373	2,795,157
Other expense, net	(9,596,403)	(8,118,298)	(4,971,896)
Net non-operating expense	(40,590,969)	(40,424,832)	(54,408,662)
Income before capital grants	151,697,163	140,013,377	89,244,838
Capital grants	2,298,184	2,208,461	5,752,052
Change in net assets	153,995,347	142,221,838	94,996,890
Total net assets – beginning	1,828,150,506	1,685,928,668	1,590,931,778
Total net assets – ending	<u>\$ 1,982,145,853</u>	<u>\$ 1,828,150,506</u>	<u>\$ 1,685,928,668</u>

Analysis fiscal year 2006

Compared to the results of operations for fiscal year 2005, revenues from all berths and special facilities increased 7%; specifically, all lines of business increased: containerized cargo 7%, liquid bulk 1%, dry bulk 21%, steel 14%, vehicles 2%, lumber 16%, other facilities 6%, rentals 5%, and miscellaneous revenues 12%. Gross oil operations revenue increased 41%.

In terms of volume (measured in metric revenue tons), the following lines of business increased: containerized cargo 7%, liquid bulk 1%, dry bulk 29%, and vehicles 23%; while the following lines of business decreased: steel 4%, lumber 12%, and miscellaneous 30%.

Operating expenses increased partly due to the ongoing implementation of the Green Port policy, which provides for higher environmental mitigation expenses. There was also a substantial increase in Port security related costs and closing of capital work orders considered to be operating expenses rather than capital expenditures.

Depreciation expense changes in proportion to the acquisition, completion, or retirement of operating assets; during fiscal year 2006 the Port did not put into service any major facility or major assets, but it retired assets that were still being depreciated. This combination of factors

**The Harbor Department of the City of Long Beach
Management's Discussion and Analysis
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resulted in a slight reduction of the depreciation expense. Interest expense decreased because of the scheduled reduction of bond principal balances and due to the favorable effect of the variable interest rate on the 2002A bonds. Interest income increased due to financial market conditions with prevailing higher interest rates and higher cash balances maintained by the Port.

Analysis fiscal year 2005

Compared to the results of operations for fiscal year 2004, revenues from all berths and special facilities increased 18%; specifically containerized cargo increased 20%, liquid bulk 5%, dry bulk 10%, steel 8%, other facilities 66%, rentals 8%, and miscellaneous revenues 18%; vehicles showed no gain from 2004, while lumber decreased 14%. Oil operations gross revenues increased by 44%.

In terms of volume (measured in metric revenue tons), containerized cargo increased 20%, liquid bulk 3%, steel 11%, vehicles 7%, and dry bulk 5%. Lumber declined by 5% and miscellaneous cargo declined by 10%.

Operating expenses increased due partly to the implementation of the new Green Port policy, which provided for higher environmental mitigation expenses. There was also a substantial increase in Port security related costs, and closure of capital work orders considered to be operating expenses rather than operating assets. Depreciation expense increased because of depreciation attributed to installations placed in service during the current fiscal year. Interest expense decreased due to lower principal balances and due to the current refunding of the 1995 Revenue Bonds. Interest income, on the other hand, increased due to higher interest rates prevailing during the year, and to the increase in the principal balances of some of the reserves.

Notes to the Financial Statements

The notes to the Department's financial statements can be found on pages 16-37 of this report. These notes provide additional information that is essential to a full understanding of the financial statements.

Capital Assets and Debt Administration

Capital assets

The Department's investments in capital assets, net of accumulated depreciation, as of September 30, 2006, 2005, and 2004 are as follows:

	CAPITAL ASSETS, NET SEPTEMBER 30, 2006, 2005, AND 2004		
	2006	2005	2004
Non-depreciable capital assets			
Land	\$ 848,903,831	\$ 836,811,556	\$ 815,214,993
Construction in progress	145,554,036	130,633,396	168,177,328
Rights of way	207,823,264	207,823,264	207,823,264
Subtotal non-depreciable capital assets	1,202,281,131	1,175,268,216	1,191,215,585
Depreciable capital assets			
Structures and Facilities	985,583,964	1,044,433,538	1,045,143,882
Furniture, fixtures, and equipment	3,566,335	3,493,140	3,652,350
Subtotal depreciable capital assets	989,150,299	1,047,926,678	1,048,796,232
Total capital assets	\$ 2,191,431,430	\$ 2,223,194,894	\$ 2,240,011,817

**The Harbor Department of the City of Long Beach
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Analysis fiscal year 2006

The Department's investment in capital assets includes land; structures and facilities; furniture, fixtures, and equipment; construction in progress; and rights of way. These assets experienced a decrease of 1% when compared to previous year. The decrease is due to the transfer of costs accumulated in the construction in progress account to operating expenses. Additional information regarding the Department's capital assets can be found in Note 5 to the financial statements.

Analysis fiscal year 2005

The Department's investment in capital assets includes land; structures and facilities; furniture, fixtures, and equipment; construction in progress; and rights of way. These assets experienced a decrease of 1% when compared to previous year. Additional information regarding the Department's capital assets can be found in Note 5 to the financial statements.

Debt administration

The following table summarizes the Department's long-term debt as of September 30, 2006, 2005, and 2004:

LONG-TERM DEBT SEPTEMBER 30, 2006, 2005, AND 2004			
	2006	2005	2004
Bond debt	\$1,055,949,798	\$1,092,333,356	\$1,151,237,594
Commercial paper outstanding	60,150,000	60,150,000	60,150,000
Notes payable	82,667	137,559	192,451
Total long-term debt	<u>\$1,116,182,465</u>	<u>\$1,152,620,915</u>	<u>\$1,211,580,045</u>

Analysis fiscal year 2006

The Department's total long-term debt decreased \$36,438,450, or approximately 3%. The decrease was the result of scheduled debt service payments.

The underlying ratings assigned to the Department's bond issues are as follows: Standard & Poor's: AA, stable outlook; Moody's Investors Services: Aa2, stable outlook; and Fitch Ratings: AA, stable outlook. The ratings are the result of the following factors: the Port's significant size and strength among the West Coast container ports; its status as a world-class facility; its prime location to attract Pacific Rim trade; convenient links to inter-modal connections; its healthy financial margins and high liquidity; and the implementation of an environmentally responsible capital program supported by the Board of Harbor Commissioners and management's commitment to sustainability, environmental protection, and customer service.

The debt-service coverage ratios for the fiscal years ending 2006 and 2005 are 3.4 and 3.4, respectively. The minimum rate required by the Department's various bond indenture documents is 1.25.

Additional information on the Department's long-term debt can be found in notes 6, 7, and 8 on pages 25-30 of this report.

Analysis fiscal year 2005

The Department's total long-term debt decreased \$58,959,130, or approximately 5%. The decrease was the result of scheduled debt service payments and the restructuring of some of the bonds issued by the Department. The 1995 Harbor Revenue Bonds were current refunded and

**The Harbor Department of the City of Long Beach
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defeased with funds from the issuance of the 2005 Harbor Revenue Refunding Bonds.

The underlying ratings assigned to the Department's bond issues are as follows: Standard & Poor's: AA, stable outlook; Moody's Investors Services: Aa3, positive outlook; and Fitch Ratings: AA, stable outlook. The ratings are the result of the Port's significant size, and strength among the competitive West Coast container ports, status as a world-class facility, prime location to capture Pacific Rim trade, links to inter-modal connections, healthy financial margins, high levels of liquidity, and an attainable and environmentally responsible capital program supported by management's commitment to sustainability, environmental protection and preservation and customer service.

The debt-service coverage ratios for the fiscal years ending 2005 and 2004 are 3.1 and 2.5, respectively. The minimum rate required by the Department's various bond indenture documents is 1.25.

Additional information on the Department's long-term debt can be found in notes 6, 7, and 8 on pages 25-30 of this report.

Economic Outlook

In 1911, the State of California established the Long Beach tidelands area as a State Trust and designated the City of Long Beach as a trustee for the people of the State of California. The Port of Long Beach, located in the Tidelands Trust, has been a successful landlord port providing the region, state, and nation with seaport facilities and serving as an international gateway for trade. In recent years this trade has grown significantly. Trade is expected to continue to grow over the coming years.

In 2006, Port's terminals moved nearly 7.2 million TEU's (twenty-foot equivalent units), an increase of 7.9% from 2005. The Port's overall increases in cargo volumes led to significant growth in operating revenues. The Port's net income, before grants, increased 8.3%.

In addition to the growth in container cargo, other line of businesses also increased. Dry bulk revenue, consisting mainly of outbound petroleum coke and inbound cement and gypsum, increased 21%; steel and other break-bulk grew 14%; petroleum and liquid bulk increased 1%; vehicles increased 2%; and lumber increased 16%. Most of the remaining revenue generators including other facilities, rentals and miscellaneous activities also increased.

Cargo volume through the Port increased to 168 million metric revenue tons in fiscal 2006, up 7% from 2005. Containerized cargo terminals recorded gains of 7% by volume; liquid bulk volume increased 1%, and dry bulk volume increased 29%.

This constant expansion of foreign trade provides a tremendous boost to local, regional and national economies, and affords the Port a number of opportunities for the future. It also presents significant challenges as the Port balances its economic growth with responsible stewardship of the environment.

The Department generates revenues through leases, tariffs and other charges assessed to its tenants. No local, state or federal taxes support Port operations. The Department does not fund general governmental activities but compensates the City of Long Beach for services such as public safety, human resources, civil service, and centralized financial, legal and audit services.

**The Harbor Department of the City of Long Beach
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Trade and Commerce

Throughout its history, and being one of the world's busiest ports, the Port has made it a priority to provide state-of-the-art seaport facilities; this is even more important in today's operating environment than ever before. Investing in modern facilities and transportation infrastructure is conducive to significant increases in goods movement efficiency. Increased efficiency leads to greater regional economic benefits as well as a safer and cleaner Port environment.

Trade traffic passing through the Port of Long Beach is expected to increase in the foreseeable future. As a landlord and facilities developer, the Port has the responsibility to maintain much of the infrastructure within the Long Beach Harbor District. Building modern facilities and infrastructure and providing proper maintenance for such assets is essential, not only to the Port's financial success but also a key element in meeting environmental protection needs of the surrounding communities. Port's resources are devoted to facilitate international goods movement, to build state-of-the-art infrastructure and transportation systems, and to reduce traffic congestion and other negative impacts on the community. The largest infrastructure project now underway is the Ocean Boulevard interchange project. This project, when completed, will reduce travel time for trucks and automobiles crossing Terminal Island, thereby improving traffic flow and reducing air pollution.

The Port also provided funding for an Environmental Impact Study that will examine a proposed overhaul of the Long Beach (I-710) Freeway. The study will examine design alternatives and evaluate the benefits and impacts of widening the freeway.

To accommodate the increase in trade volume expected during the next 20 years the Port will continue to seek innovative solutions for developing facilities and related infrastructure while ensuring that air, water and soil quality continue to improve.

Environmental Protection

In June, 2006, the Ports of Long Beach and Los Angeles jointly introduced the San Pedro Bay Port Clean Air Action Plan (CAAP), a sweeping plan aimed at significantly reducing the health risks posed by air pollution from port-related ships, trains, trucks, terminal equipment, and harbor craft. The Port of Long Beach will invest \$229 million over the next five years. The Port has established itself as a world leader in sustainable industrial development by adopting the industry-leading Green Port Policy.

Specific environmental accomplishments include:

- Signing two ground breaking "green" leases with SSA Terminal and International Transportation Services at Piers C and G, respectively, which will reduce air pollution significantly over the coming years.
- Implementing the Green Flag Incentive program, a tariff item, which will use up to \$2.7 million in annual incentives to stimulate compliance with a voluntary speed reduction program. Lower speed reduces harmful emissions in the Port region.
- Joining forces with Port of Los Angeles and Pacific Harbor Line, a private railroad operator, to fund a clean-diesel locomotive replacement program.
- Continuing the implementation of cold ironing on Pier T as a result of a voluntary agreement with British Petroleum in 2005.

**The Harbor Department of the City of Long Beach
Management's Discussion and Analysis
September 30, 2006 and 2005**

Security

The Port of Long Beach is dedicated to being the safest, most secured Port in the world. To assist in that effort the Port has actively pursued and has been awarded, up to the end of fiscal year 2006, nearly \$37 million in Federal Port Security grants. These funds will enhance communications systems and security technology.

The Port continues to develop an Emergency Management system for the entire Port complex and is putting together its business continuity plan to ensure uninterrupted key Port operations in the event of an emergency. The Port is enhancing its security budget to ensure the acquisition of the latest security technology and to provide its officers with the best training available. In the spirit of cooperation, the Port works closely with the Long Beach Police Department, U.S. Customs, and the U.S. Coast Guard to safeguard the Harbor District. To that end, on July 17, 2003 the Port was awarded federal grant money that will partially fund a new \$20 million joint use Command and Control Center on Pier F; construction of this facility will begin in 2007. The facility will house the Port's Security Division; Long Beach Police Officers assigned to the Port; representatives from the U.S. Coast Guard, U.S. Customs and Border Protection; and Los Angeles Port Police.

Requests for Information

This financial report is designed to provide a general overview of the Department's finances for people or entities interested in the financial aspects of the Port. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Chief Financial Officer, 925 Harbor Plaza, Long Beach, CA, 90802.

The Harbor Department of the City of Long Beach
Statements of Net Assets
September 30, 2006 and 2005

Assets	<u>2006</u>	<u>2005</u>
Current assets:		
Pooled cash and cash equivalents (Note 2)	\$ 563,903,516	\$ 394,398,772
Trade accounts receivable, net of allowance	41,763,945	41,935,066
Interest receivable	576,406	613,360
Due from other governmental agencies (Note 3)	2,961,260	693,101
Inventories of supplies	928,111	1,007,420
Sub-total	<u>610,133,238</u>	<u>438,647,719</u>
 Harbor Revenue Bond Funds and other funds restricted as to use (Notes 2, and 8):		
Pooled cash and cash equivalents (Note 2)	259,112,794	247,691,789
Bond reserves held by Fiscal Agents (Note 8)	54,153,081	54,184,275
Sub-total restricted current assets	<u>313,265,875</u>	<u>301,876,064</u>
Total current assets	<u>923,399,113</u>	<u>740,523,783</u>
 Non-current assets:		
Capital assets (Notes 5 and 10):		
Land:		
Purchased	439,812,839	439,492,674
Constructed	409,090,992	397,318,882
Net land	<u>848,903,831</u>	<u>836,811,556</u>
Structures and facilities	1,782,556,550	1,767,711,746
Less accumulated depreciation	(796,972,586)	(723,278,208)
Net structures and facilities	<u>985,583,964</u>	<u>1,044,433,538</u>
Furniture, fixtures and equipment	15,439,437	15,189,557
Less accumulated depreciation	(11,873,102)	(11,696,417)
Net furniture, fixtures and equipment	<u>3,566,335</u>	<u>3,493,140</u>
Construction in progress	145,554,036	130,633,396
Right of way (Note 4)	207,823,264	207,823,264
Net capital assets	<u>2,191,431,430</u>	<u>2,223,194,894</u>
 Other assets:		
Long -term receivables (Note 3)	27,435,000	27,435,000
Oil facilities (net of accumulated depletion of \$69,192,143 and \$68,528,520 respectively) (Note 5)	11,943,712	12,607,334
Environmental mitigation costs (Note 14)	44,278,068	32,878,068
Investments in joint venture (Note 11)	6,787,795	5,986,131
Other non-current assets	17,500,717	27,695,226
Total other assets	<u>107,945,292</u>	<u>106,601,759</u>
Total non-current assets	<u>2,299,376,722</u>	<u>2,329,796,653</u>
Total assets	<u>\$ 3,222,775,835</u>	<u>\$ 3,070,320,436</u>

(Continued)

The Harbor Department of the City of Long Beach
Statements of Net Assets
September 30, 2006 and 2005

	2006	2005
Liabilities and Net Assets		
Current liabilities payable from current assets:		
Accounts payable and accrued expenses	\$ 54,217,748	\$ 22,776,621
Due to City of Long Beach (Note 13)	14,571,972	9,499,689
Notes payable (Note 7)	41,334	54,892
Deferred credits and unearned revenue (Note 12)	17,226,740	17,082,670
Total current liabilities payable from current assets	<u>86,057,794</u>	<u>49,413,872</u>
Current liabilities payable from restricted assets:		
Current portion of bonds indebtedness (Note 8)	38,335,000	34,935,000
Accrued interest – bonds	17,746,056	20,105,035
Total current liabilities payable from restricted assets	<u>56,081,056</u>	<u>55,040,035</u>
Commitments and contingencies (Note 12)	<u>2,385,000</u>	<u>2,385,000</u>
Total current liabilities	<u>144,523,850</u>	<u>106,838,907</u>
Long-term obligations net of current portion:		
Bonds indebtedness (Note 8)	1,017,614,798	1,057,398,356
Commercial paper outstanding (Note 6)	60,150,000	60,150,000
Notes payable (Note 7)	41,333	82,667
Oil wells abandonment (Note 12)	18,300,000	17,700,000
Total noncurrent liabilities	<u>1,096,106,131</u>	<u>1,135,331,023</u>
Total liabilities	<u>1,240,629,981</u>	<u>1,242,169,930</u>
Net assets (Note 15):		
Invested in capital assets, net of related debt	1,079,606,148	1,080,335,939
Restricted-non-related party debt service contingency and matching contribution for future federally funded projects (Note 12)	162,602,842	153,416,559
Restricted-Capital projects	51,647,885	47,428,818
Restricted-Debt service	103,479,769	105,475,990
Unrestricted	584,809,209	441,493,200
Total net assets	<u>\$ 1,982,145,853</u>	<u>\$ 1,828,150,506</u>

See accompanying notes to the financial statements.

The Harbor Department of the City of Long Beach
Statements of Revenues, Expenses, and Changes in Fund Net Assets
For the Fiscal Years Ended September 30, 2006 and 2005

	2006	2005
Port operating revenues (Note 10):		
Berths and special facilities	\$ 337,675,886	\$ 314,563,390
Rental properties	11,458,464	10,925,736
Miscellaneous	4,160,127	3,718,336
Total Port operating revenues	353,294,477	329,207,462
Port operating expenses:		
Facility maintenance	5,336,502	5,801,372
Infrastructure maintenance	22,787,336	16,738,700
Fire and safety	17,527,101	14,210,253
Other indirect	8,690,263	6,155,509
General and administrative	21,199,838	19,109,527
Port operating expenses before depreciation and amortization	75,541,040	62,015,361
Depreciation and amortization	85,465,306	86,753,892
Total Port operating expenses	161,006,346	148,769,253
Operating Income	192,288,131	180,438,209
Non-operating income (expense):		
Intergovernmental (Note 13)	(14,222,184)	(9,499,689)
Interest income	28,301,965	17,964,410
Interest expense	(54,109,749)	(57,447,850)
Income from Harbor oil operations	6,125,571	13,540,959
Loss on disposition of capital assets	(1,391,832)	(399,737)
Income from equity in joint ventures (Note 11)	4,301,663	3,535,373
Other expense, net	(9,596,403)	(8,118,298)
Net non-operating expense	(40,590,969)	(40,424,832)
Income before capital grants	151,697,163	140,013,377
Capital grants	2,298,184	2,208,461
Increase in net assets	153,995,347	142,221,838
Total net assets, October 1	1,828,150,506	1,685,928,668
Total net assets, September 30	\$ 1,982,145,853	\$ 1,828,150,506

See accompanying notes to the financial statements.

The Harbor Department of the City of Long Beach
Statements of Cash Flows
September 30, 2006 and 2005

	2006	2005
Cash flows from operating activities:		
Cash received from customers	\$ 354,167,712	\$ 322,771,573
Cash paid to employees net of capitalized labor of \$4,835,075 and \$4,540,977 in 2006 and 2005	(25,771,912)	(24,095,868)
Cash paid to suppliers	(48,091,396)	(28,848,619)
Net cash provided by operating activities	<u>280,304,404</u>	<u>269,827,086</u>
Cash flows from non-capital financing activities:		
Intergovernmental transfers	(9,499,689)	(6,850,777)
Net cash used in non-capital financing activities	<u>(9,499,689)</u>	<u>(6,850,777)</u>
Cash flows from capital and related financing activities:		
Proceeds from the sales of capital assets	78,436	42,388
Payments for capital acquisitions	(59,189,051)	(82,228,647)
Grant proceeds	1,112,876	1,925,423
Bond debt issuance	-	277,682,985
Principal repayment-bonds	(34,935,000)	(327,655,000)
2005 Bonds reserve	-	(20,855,469)
Interest paid	(58,060,860)	(47,481,615)
Principal payment-notes	(54,892)	(54,892)
Net cash used in capital and related financing activities	<u>(151,048,491)</u>	<u>(198,624,827)</u>
Cash flows from investing activities:		
Interest received	28,207,625	18,193,282
Return on investment in joint venture	3,500,000	2,500,000
Harbor oil operations providing cash	29,562,000	11,387,989
Net cash provided by investing activities	<u>61,269,625</u>	<u>32,081,271</u>
Net increase in cash and cash equivalents	181,025,849	96,432,753
Cash and cash equivalents, October 1,	<u>663,912,756</u>	<u>567,480,003</u>
Cash and cash equivalents, September 30,	<u>\$ 844,938,605</u>	<u>\$ 663,912,756</u>

Continued

The Harbor Department of the City of Long Beach
Statements of Cash Flows
September 30, 2006 and 2005

	2006	2005
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 192,288,131	\$ 180,438,209
Adjustments to reconcile operating income to		
Net cash provided by operating activities:		
Depreciation and amortization	85,465,306	86,753,892
(Increase) in receivables	(410,703)	(2,938,081)
Decrease (increase) in inventory	58,224	(142,419)
(Increase) in other current assets	-	(72,129)
Decrease in deferred charges	-	2,891,301
(Decrease) increase in vouchers payable	(65,087)	(767,796)
Increase in accounts payable	886,269	5,196,690
Increase in wages payable	448,537	2,722,696
Increase in accrued commitments & contingencies	-	885,000
(Decrease) in deferred revenue	1,071,887	(8,272,098)
Increase in customer deposits	212,051	275,159
Increase in due to other funds	349,789	2,648,912
Increase in other liabilities	-	207,749
Total adjustments	88,016,273	89,388,876
Net cash provided by operating activities	\$ 280,304,404	\$ 269,827,085

See accompanying notes to the financial statements.

The Harbor Department of the City of Long Beach
Notes to the Financial Statements
September 30, 2006 and 2005

(1) Summary of Significant Accounting Policies

The Reporting Entity

Article XII of the City Charter of the City of Long Beach, California (the City), created the Harbor Department of the City of Long Beach (the Department) to promote and develop the Port of Long Beach. The Department operations are included in the City's reporting entity as an enterprise fund; its activities are conducted in the Tidelands Trust area of the City and are subject to coastal area laws of the State of California and to the terms of the trust agreement between the City and the State of California.

The Harbor Facilities Corporation (the Corporation), a non-profit public benefit corporation, has been inactive since 1995 and did not have any activity during the 2006 and 2005 fiscal years. If the Corporation would have any transactions with financial implications, they would be included in the Department's financial statements.

The Department, together with the Harbor Department of the City of Los Angeles, formed a joint venture to finance the construction of the Intermodal Container Transfer Facility (ICTF). The ICTF venture has been recorded as an investment under the equity method of accounting in the accompanying financial statements (see Note 11).

In 1989, the cities of Los Angeles and Long Beach entered into a Joint Exercise of Powers Agreement to create the Alameda Corridor Transportation Authority (the Authority). This agreement was amended and restated in 1996. The Authority was created primarily for the purpose of acquiring, constructing, financing, and operating the Alameda Corridor (the Project). The Project consists of a 20-mile-long rail cargo expressway connecting the ports in the San Pedro Bay to the transcontinental rail yards near downtown Los Angeles. The Alameda Corridor began operations in April 2004. The Authority prepares its own financial statements, and its transactions are not included as part of the Department's financial statements.

Basis of Accounting and Measurement Focus

Disbursement of funds derived from Department operations is restricted to Harbor trust agreement purposes. The costs of providing port services are recovered entirely through leases, tariffs, and other charges assessed to the Department tenants. Consistent with generally accepted accounting principles for enterprise funds, the accounting policies of the Department conform to the accrual basis of accounting. The measurement focus of the accompanying financial statements is on the determination of changes in net assets and changes in financial position. Operating revenues and expenses are generated and incurred through the cargo activities performed by the Port tenants; operating expenses include the maintenance of facilities and infrastructure, Harbor patrol security, and reimbursement to the Fire and Police Departments for manning fire boats, land stations, and police patrols. Administration and depreciation expenses are also considered operating expenses. Other revenues and expenses not included in the above categories are reported as non-operating revenues and expenses. The Department applies all applicable Governmental Accounting Standards Board (GASB) pronouncements and all FASB Statements and Interpretations, including those issued on or before November 30, 1989, except for those that conflict with or contradict GASB pronouncements. The Department's financial statements include two components:

1. Management's discussion and analysis (MD&A)
2. Financial statements including:
 - Statements of net assets
 - Statements of revenues, expenses, and changes in fund net assets
 - Statements of cash flows on the direct method, and
 - Notes to the financial statements

The Harbor Department of the City of Long Beach
Notes to the Financial Statements
September 30, 2006 and 2005

New Accounting Pronouncements

Effective October 1, 2005, the Department adopted GASB Statement No. 40, *Deposit and Investment Risk Disclosures – an amendment of GASB Statement No. 3*. This statement addresses common deposits and investment risks related to credit risks, concentration of credit risk, and interest rate risk. As an element of interest rate risk, this statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. Deposit and investment policies related to the risks identified in this statement also are required to be disclosed. Implementation of GASB Statement No. 40 did not have a significant impact on the Department's financial statements but required additional footnote disclosures for the year ended September 30, 2006 (see Note 2).

Effective October 1, 2006, the Department adopted GASB Statements No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, and GASB No. 44 *Economic Condition Reporting – The Statistical Section*, an amendment of National Council on Government Accounting (NCGA) Statement No. 1. The adoption of both pronouncements, GASB 42 and GASB 44, did not have a material effect on the Department's financial statements.

Pooled Cash and Cash Equivalents

In accordance with City Charter requirements, the Department pools its available cash with that of the City. The City's cash management pool is used essentially as a demand deposit account by the participating City-organizational units. For purposes of the statements of cash flows, the Department defines cash and cash equivalents as pooled cash and investments, including restricted pooled cash and investments and short term, easily convertible to cash, non-pooled investments. Investment decisions are made by the City Treasurer and approved by an investment committee whose membership includes members of the Department's management group.

Interest income and gains/losses arising from such pooled cash and investments are apportioned to each participating fund based on the relationship of the individual fund's average daily cash balances to the aggregate pooled cash and investments. The Department's share of pooled cash and investments, as of September 30, 2006 and 2005, is stated at fair value (see Note 2).

Inventories

Inventories of supplies are valued at the lower of average cost or market.

Capital Assets

Capital assets are valued at historical costs. The capitalization threshold for capital assets is \$5,000. Depreciation is determined using the straight-line method with no allowance for salvage values. When appropriate, provision for obsolescence is recognized by charging depreciation at an accelerated rate on specific assets. The estimated economic lives used to determine annual rates of depreciation are subject to periodic review and revision, if appropriate, to assure that the cost of the respective assets will be written off over their economic lives. Estimated useful lives used in the computation of depreciation of capital assets are as follows:

Structures and facilities:	
Bridges and overpasses	50 to 75 years
Wharves and bulkheads	40 years
Transit sheds and buildings	20 years
State highway connections	10 years
Other	5 to 50 years
Furniture, fixtures, and equipment	2 to 30 years

The Harbor Department of the City of Long Beach
Notes to the Financial Statements
September 30, 2006 and 2005

Oil facilities are valued at historical cost plus estimated future oil well abandonment costs. Oil field depletion is determined using the estimated economic life of the oil field. Donated assets are valued at their estimated fair value on the donation date.

Compensated Absences

The Department records all accrued employee benefits, including accumulated vacation and sick leave, as a liability in the period when the benefits are earned. Accrued employee benefits are treated as a current liability for financial statement presentation.

Pension Plan

All full-time Department employees are members of the State of California Public Employees' Retirement System (CalPERS). The Department's policy is to fund all accrued pension costs. These costs are determined annually as of October 1 by CalPERS, and are incorporated into the payroll burden rate reimbursable to the City's Employee Benefits Internal Service Fund. For CalPERS contributions made on behalf of Department employees (see Note 9).

Allowance for doubtful accounts

The allowance for doubtful accounts is maintained at an adequate level to absorb accounts receivable losses. Management continually monitors accounts receivable to identify specific uncollectible accounts to determine the annual provision for uncollectible accounts. The allowance for doubtful accounts is changed with the provision for uncollectible accounts.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the financial statements. Actual results could differ from those estimates.

Reclassifications

Certain amounts reported in fiscal year 2005 have been reclassified to conform to the fiscal year 2006 presentation. Such reclassifications had no effect on the previously reported change in net assets.

(2) Pooled Cash, Cash Equivalents and Other Investments

The Department's cash and investments, including restricted cash and investments, are pooled with other City funds and maintained by the City Treasurer. The City Charter requires the Department to participate in the City Treasurer's pool. The City's investment policy authorizes the pool to invest in obligations issued or guaranteed by the Federal Government and its agencies and instrumentalities, as well as in commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record, bankers' acceptances, repurchase agreements, reverse repurchase agreements, bank certificates of deposits, the State Treasurer's Local Agency Investment Fund, and shares of beneficial interest (mutual funds) issued by diversified management companies.

It is the policy of the City Treasurer to invest funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the City and its Departments and to conform to all state and local statutes governing the investment of public funds, using the "prudent person" standard for managing the overall portfolio. The primary objective of the policy is safety of principal, liquidity, yield, and maintaining the public trust. Individual departmental cash deposits and investments within this pool cannot be specifically identified among the participating units. Interest income and gains and losses earned on pooled cash and investments are allocated monthly to the various pool participants based on their average daily cash balances.

The Harbor Department of the City of Long Beach
Notes to the Financial Statements
September 30, 2006 and 2005

Investments Authorized by the California Government Code and the City's Investment Policy

The table below identifies the investment types that are authorized for the City by the City's investment policy. The table also identifies certain provisions of the City's investment policy that address interest rate risk, credit risk, and concentration of credit risk. This table does not address debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the City, rather than the general provision of the California Government Code or the City's investment policy.

FISCAL YEAR 2006

Authorized Investment type	Maximum Maturity	Maximum % of portfolio	Maximum Investment in One Issuer
Bonds issued by the city of Long Beach	5 years*	30 %	None
U.S. Treasury notes, bonds, or bills	5 years*	None	None
Registered state warrants or treasury notes or bonds of the State of California	5 years*	30 %	None
Local Agency Bonds	5 years*	30 %	None
Federal Agency Securities	5 years*	None	None
Banker's Acceptances	180 days	40 %	30 %
Commercial paper	270 days	25 %	10 %
Negotiable Certificates of Deposit	5 years*	30 %	10 %
Time Certificates of Deposit	5 years*	100 %	10 %
Repurchase Agreements	90 days	100 %	None
Reverse Repurchase Agreements	92 days	20 %	None
Securities Lending Program	92 days	20 %	None
Medium-term notes	5 years*	30 %	10 %
Money Market funds	N/A	20 %	10 %
Local Agency Investment Fund	N/A	None	\$40 million per account
Asset-backed Securities	5 years	20 %	None
Mortgage-backed Securities	5 years	20 %	None

* Maximum maturity of five (5) years unless a longer maturity is approved by the City Council, either specifically or as part of an investment program, at least three (3) months prior to purchase.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming closer to maturity evenly over time as necessary to provide cash flow and liquidity needed for operations.

The following schedules indicate the interest rate risk of the City's investments as of September 30, 2006 and 2005.

Fiscal Year 2006:

Investment type	Amount (In thousands)	Weighted average maturity (In years)
Inter-Department Loan	\$ 3,297	12.60
United States Treasury notes	214,467	1.54
Federal agency securities	1,042,876	1.57
Medium-term notes	33,464	1.61
Short-term commercial paper	132,731	0.01
Local Agency Investment Fund (LAIF)	2,920	0.00
SUBTOTAL CITY POOL	\$ 1,429,755	
Cash on hand	26,811	
Outstanding checks	(18,044)	
TOTAL CITY POOL	\$ 1,438,522	

The Harbor Department of the City of Long Beach
Notes to the Financial Statements
September 30, 2006 and 2005

Fiscal Year 2005:

Investment type	Amount (In thousands)	Weighted average maturity (In years)
Inter-Department Loan	\$ 3,502	13.57
United States Treasury notes, bonds, or bills	286,244	0.84
Federal agency securities	858,473	1.31
Medium-term notes	95,404	-
Money market funds	34	-
Local Agency Investment Fund (LAIF)	94,913	0.46
TOTAL CITY POOL	\$ 1,338,570	
Guaranteed investment contracts	\$ 32,362	-
Money market funds	21,822	-
TOTAL HELD BY BOND TRUSTEE	\$ 54,184	
TOTAL CASH AND INVESTMENTS	\$ 1,392,754	

Investments with Fair Values Highly Sensitive to Investment Risk

The City had no investments with values that were highly sensitive to investment risk as of September 30, 2006 and 2005.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the California Government Code, the City's investment policy, and the actual rating as of year end for each investment type as of September 30, 2006 and 2005.

FISCAL YEAR 2006

Investment type	AMOUNT (In 000's)	Minimum Legal Rating	RATING AS OF SEPTEMBER 30, 2006					
			Not Required	A-1+	A-1	AAA	AA	Unrated
Inter-Department Loan	\$ 3,297	N/A	\$ 3,297	\$ -	\$ -	\$ -	\$ -	\$ -
U.S. Treasury notes	214,467	N/A	214,467	-	-	-	-	-
Federal Agency Securities	1,042,876	N/A	-	-	-	1,042,876	-	-
Medium-term notes	33,464	N/A	-	-	-	28,445	5,019	-
Short-term Commercial Paper	132,731	N/A	-	75,773	56,958	-	-	-
Local Agency Investment Fund	2,920	N/A	2,920	-	-	-	-	-
SUBTOTAL CITY POOL	1,429,755		220,684	75,773	56,958	1,071,321	5,019	-
Cash on Hand	26,811	N/A	-	-	-	-	-	26,811
Outstanding checks	(18,044)	N/A	-	-	-	-	-	(18,044)
TOTAL CITY POOL	\$ 1,438,522		\$ 220,684	\$ 75,773	\$ 56,958	\$ 1,071,321	\$ 5,019	\$ 8,767

FISCAL YEAR 2005

Investment type	AMOUNT (In 000's)	Minimum rating	RATING AS OF SEPTEMBER 30, 2005				
			Not Required	Unrated	AAA	AA	A
Inter-Department Loan	\$ 3,502	N/A	100%				
U.S. Treasury notes, bonds, or bills	286,244	N/A	100%				
Federal Agency Securities	858,473	N/A			100%		
Medium-term notes	95,404	A			75%	5%	20%
Money Market funds	34	N/A	100%				
Local Agency Investment Fund	94,913	N/A		100%			
TOTAL CITY POOL	\$ 1,338,570						
Guaranteed investment contracts	32,362	N/A	100%				
Money market funds	21,822	N/A	100%				
TOTAL HELD BY BOND TRUSTEE	54,184						
TOTAL CASH AND INVESTMENTS	\$ 1,392,754						

**The Harbor Department of the City of Long Beach
Notes to the Financial Statements
September 30, 2006 and 2005**

Concentration of Credit Risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer that represent 5% or more of total City's pooled investments and for the fiscal years ended September 30, 2006 and 2005 are as follows (in thousands):

FISCAL YEAR 2006

Issuer	Investment type	Amount
FFCB Total	Federal Agency Securities	\$ 181,052
FHLB Total	Federal Agency Securities	241,246
FHLMC Total	Federal Agency Securities	266,937
FNMA Total	Federal Agency Securities	353,641
U.S. Treasuries	U.S. Treasury Notes & Bonds	214,467
Commercial Paper	Unsecured Corporate Debt	132,731
Corporate Debt Securities	Unsecured Corporate Debt	33,464
Local Agency Investment Fund (LAIF)	Local Agency Investment Fund	2,920
		<u>\$ 1,426,458</u>

FISCAL YEAR 2005

Issuer	Investment type	Amount
FNMA	Federal Agency Securities	\$ 237,814
Federal Farm Credit Agency	Federal Agency Securities	194,999
FHLB	Federal Agency Securities	204,151
FHLMC	Federal Agency Securities	216,462
Local Agency Investment Fund (LAIF)	Local Agency Investment Fund (LAIF)	94,914
U.S. Treasury	U.S. Treasury notes, bond, or bills.	286,244
		<u>\$ 1,234,584</u>

Investments Authorized by Debt Agreements

Investments of debt proceeds held by bond trustee are governed by provisions of the debt agreements.

Custodial Credit Risk

Custodial credit risk for deposits with financial institutions is the risk that in the event of failure of a depository financial institution, a government will not be able to recover collateral securities that are in the possession of an outside party. The custodial risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits. The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

All securities owned by the City are deposited in trust for safekeeping with a custodial bank different from the City's primary bank except for one City issued bond and investment in the State's Local Agency Investment Fund.

Investments in State Investment Pool

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code section 16429 under the oversight of the Treasurer of the State of California. The fair value of the City's investment in this pool is reported in the accompanying financial statements at amounts based upon the City's pro-rata share of the fair value provided by

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LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are mortgage-backed securities, loans to certain state funds, securities with interest rates that vary according to changes in rates greater than a one-for-one basis, and structured basis.

The Department's portion of the total pooled cash and cash equivalents amount as of September 30, 2006 and 2005 is \$823,016,310 or 57.6% of the City's pooled cash and cash equivalents and \$642,090,561 or 48.0% of the City's pooled cash and cash equivalents.

Reverse Repurchase Agreements

The City did not engage in any transactions involving reverse repurchase agreements during the fiscal years ending September 30, 2006 and 2005.

Securities Lending

The City did not engage in any securities lending programs for the fiscal years ended September 30, 2006 and 2005. However, from time to time, the City engages in limited securities lending activities. These activities are governed by formal agreement with the City's contract bank. The agreements limit the nature and amount of the transactions, and such transactions are subject to full collateralization.

(3) Other Receivables

Other receivables as of September 30 include the following:

	2006	2005
Due from other governmental agencies:		
Current:		
Reimbursements due from Caltrans	\$ 2,568,892	\$ -0-
State of California	166,754	-0-
Federal grant – Department of Homeland Security	72,431	693,101
Due from other funds – Oil Properties	153,183	-0-
Total current	2,961,260	693,101
Long-term:		
Redevelopment Agency – Convention Center	\$ 27,435,000	\$ 27,435,000
Total due from other governmental agencies	\$ 30,396,260	\$ 28,128,101

Redevelopment Agency-Convention Center

In 1993, the Department advanced \$30,000,000 to the Long Beach Redevelopment Agency (the Agency) to fund construction costs related to the Long Beach Convention Center expansion project. Such advance was part of an amended agreement with the Agency to fund \$90,000,000 of the Long Beach Convention Center project and was to be repaid from revenue sources arising from future City transient occupancy tax revenues, payable in equal amounts over 17 years beginning October 1, 1997.

In August 1995, the Board of Harbor Commissioners amended this agreement and agreed to subordinate the repayment of the entire receivable to a contingent City obligation related to a bond issuance to fund the construction of the Aquarium of the Pacific (the Aquarium), a not-for-profit facility in the Queensway Bay area of the City. Provided the anticipated future revenue sources from the Aquarium would not cover their bond debt service requirements, the Agency agreed to fund the remaining debt service with transient occupancy tax revenues. A subsequent amendment deferred the initial repayment to the first quarter of fiscal year 1999, with the balance of the advance to be repaid in quarterly installments over 16 years.

In a more recent development, the City and the Department amended the agreement to provide for

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a two-year deferral of the payments scheduled for fiscal years 2000 and 2001. As of September 30, 2001, the Agency had an unpaid liability to the Department of \$27,435,000. The Agency has not made the scheduled payment for 2004, 2005, or 2006, as funds in excess of the Aquarium debt service were not sufficient. Based on updated projections from the City, the Department has reclassified the entire debt of \$27,435,000 as a long-term receivable.

(4) Alameda Corridor Right-of-Way Purchase

In December 1994, the Department and the Harbor Department of the City of Los Angeles (collectively the Ports) executed the purchase of the rights-of-way needed for the development of the Alameda Corridor Project (the Project), which is a rail transportation corridor between the Ports and the central Los Angeles area. The Ports purchased these rights, sharing the cost on a 50/50 basis, from the three railroad companies then serving the Ports: Union Pacific Railroad Company, Southern Pacific Railroad Company, and Atchison, Topeka and Santa Fe Railroad Companies. After the purchase, Southern Pacific merged into Union Pacific and Atchison, Topeka, and Santa Fe merged with Burlington Northern to form the Burlington Northern Santa Fe.

The total purchase is comprised of the right-of-way property from the three former railroad companies and a drill track from Southern Pacific to provide an additional right-of-way to access local businesses along the Project. As of September 30, 2006 and 2005, total costs to the Department related to the rights-of-way purchase are \$207,823,264 for both years.

Construction of the Project began in 1997 and it was completed in April 2002. Funding for the Project came from federal, state, and local sources, and from issuance of debt (see Note 12). Some of the benefits derived from the project are the consolidation of the railroad services onto a single set of rail lines, the improvement of the rail transportation conditions around the Ports, the securing of efficient and competitive service to and from the Ports, and the increase in public safety along the route on which Port related traffic occurs. These benefits will extend to other governmental entities by allowing them to utilize the right-of way.

Repayment to the Ports for their investments in the right-of-way and for any advances provided to the Project will occur after the Project has generated revenues sufficient to retire all debt and to fund a maintenance reserve (see Note 12).

(5) Capital Assets

The constructed land balances as of September 30, 2006 and 2005 are \$409,090,992 and \$397,318,882, respectively.

CAPITAL ASSETS ROLL FORWARD SCHEDULE

DESCRIPTION	BALANCE 10/01/05	ADDITIONS	DISPOSALS	BALANCE 9/30/06
Non-depreciable capital assets:				
Purchased land	\$ 439,492,674	\$ 320,165	\$ -	\$ 439,812,839
Constructed land	397,318,882	63,759,628	51,987,518	409,090,992
Construction in Progress	130,633,396	95,895,358	80,974,718	145,554,036
Rights of way (Note 4)	207,823,264	-	-	207,823,264
Subtotal	1,175,268,216	159,975,151	132,962,236	1,202,281,131
Depreciable capital assets:				
Structures and facilities	1,767,711,746	29,067,509	14,222,705	1,782,556,550
Furniture, fixtures and eq.	15,189,557	1,037,117	787,237	15,439,437
Subtotal	1,782,901,303	30,104,626	15,009,942	1,797,995,987
Total capital assets	\$ 2,958,169,519	\$ 190,079,777	\$ 147,972,178	\$ 3,000,277,118

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	BALANCE 10/01/04	ADDITIONS	DISPOSALS	BALANCE 9/30/05
Non-depreciable capital assets:				
Purchased land	\$ 439,492,674	\$ -	\$ -	\$ 439,492,674
Constructed land	375,722,319	21,596,563	-	397,318,882
Construction in progress	168,177,328	73,138,795	110,682,727	130,633,396
Rights of way (Note 4)	207,823,264	-	-	207,823,264
Subtotal	1,191,215,585	94,735,358	110,682,727	1,175,268,216
Depreciable capital assets:				
Structures and facilities	1,691,654,582	80,353,589	4,296,425	1,767,711,746
Furniture, fixtures and eq.	15,386,827	751,076	948,346	15,189,557
Subtotal	1,707,041,409	81,104,665	5,244,771	1,782,901,303
Total capital assets	\$ 2,898,256,994	\$ 175,840,023	\$ 115,927,498	\$ 2,958,169,519

ACCUMULATED DEPRECIATION ROLL FORWARD SCHEDULE

DESCRIPTION	BALANCE 10/01/05	ADDITIONS	DISPOSALS	BALANCE 9/30/06
Structures and facilities	\$ 723,278,208	\$ 79,792,050	\$ 6,097,672	\$ 796,972,586
Furniture, fixtures and equipment	11,696,417	885,836	709,151	11,873,102
Total accumulated depreciation	\$ 734,974,625	\$ 80,677,886	\$ 6,806,823	\$ 808,845,688

	BALANCE 10/01/04	ADDITIONS	DISPOSALS	BALANCE 9/30/05
Structures and facilities	\$ 646,510,700	\$ 81,124,466	\$ 4,356,958	\$ 723,278,208
Furniture, fixtures and equipment	11,734,477	908,306	946,366	11,696,417
Total accumulated depreciation	\$ 658,245,177	\$ 82,032,772	\$ 5,303,324	\$ 734,974,625

Interest costs incurred on the construction of property, plant and equipment for which debt has been issued are capitalized, net of related interest earnings, during the period of construction.

Capitalized interest is originally recorded as a non-current asset identifying the allocation to specific capital projects; such allocation is based on the total capitalized interest and the total projects cost incurred during the capitalization of interest period. The non-current asset is transferred to the projects once they are completed, ready for service, and classified as operating assets. During fiscal years 2006 and 2005, the Department allocations to operating assets were \$7,073,124 and \$2,891,301, respectively.

CAPITALIZED INTEREST ROLL FORWARD SCHEDULE

DESCRIPTION	BALANCE 10/01/05	ADDITIONS	ALLOCATIONS	BALANCE 9/30/06
2002A & B Revenue Bonds	\$ 7,073,124	-	\$ 7,073,124	\$ -

	BALANCE 10/01/04	ADDITIONS	ALLOCATIONS	BALANCE 9/30/05
2002A & B Revenue Bonds	\$ 9,964,425	-	\$ 2,891,301	\$ 7,073,124

Assets Constructed for Others

The Department, in agreement with the California Department of Transportation (Caltrans) and other funding agencies, engages in the construction of infrastructure assets such as roads and bridges that, when completed, and in accordance with the agreements, will be turned over to the funding agencies. The Department is reimbursed for all or a portion of the costs incurred to complete the asset.

Since the assets resulting from these agreements are not the Department's property, the reimbursed portion is classified as Assets Constructed for Others, with a corresponding long-term

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Deferred Liability. For financial statements presentation, considering that there is no income statement effect resulting from these transactions, and due to the fact that both accounts are offset against each other when the assets are turned over to the funding agency, both, the asset and the liability are omitted from the Statements of Net Assets. The non-reimbursed portion of the cost, upon completion of the transfer process, is classified as Other Non-current Assets/Major Maintenance Projects, and amortized over the useful life of the assets. The Department has not transferred any assets since fiscal year 2002. This process is of a long-term nature and will continue in future years as more assets will be transferred upon their acceptance by the funding agency.

(6) Commercial Paper Notes

In 1994, the Board of Harbor Commissioners authorized the issuance of up to \$383,500,000 in commercial paper notes and the Department issued \$148,000,000 of Series A notes to pay for acquisition costs of property, facilities, and oil rights in the North Harbor District. The notes are designated as follows:

Series A - Subject to Internal Revenue Service Code Alternative Minimum Tax (AMT)
 Series B - Not subject to AMT
 Series C - Taxable

The Department's gross revenues secure the notes. The obligation to pay the principal portion of outstanding notes is further supported by a revolving line of credit, which is currently \$175,000,000. The notes are in bearer form, in denominations of \$100,000 with integral multiples of \$50,000 in excess thereof, and will mature not more than 270 days after date of issuance. The Department has the ability to and intends to keep on extending the notes to periods longer than a year; accordingly, the outstanding amount has been classified as a long-term obligation. The outstanding notes as of September 30, 2006 and 2005 totaled \$60,150,000.

* COMMERCIAL PAPER ROLL FORWARD SCHEDULE

DESCRIPTION	BALANCE 10/01/05	ADDITIONS	REDUCTIONS	BALANCE 9/30/06
Series A; maturity dates 12/06/06				
Range of interest rates: 3.52% - 3.55%	\$ 60,150,000	\$ -0-	\$ -0-	\$ 60,150,000
	BALANCE 10/01/04	ADDITIONS	REDUCTIONS	BALANCE 09/30/05
Series A; maturity dates 10/07/05-11/08/05				
Range of interest rates: 2.48% - 2.68%	\$ 60,150,000	\$ -0-	\$ -0-	\$ 60,150,000

The December 06, 2006 maturity on the Series A, Commercial Paper notes falls after the date of the external auditor's report; the Department continues to exercise its option to extend the notes to periods longer than a year.

(7) Notes Payable

The Notes Payable relate to purchase and sale agreements of the property described; notes are unsecured, and annual principal payments amount to \$41,334 in 2007 and \$41,333 in 2008. The outstanding balances at September 30 are as follows:

	2006	2005
Notes payable	\$ 82,667	\$ 137,559
Less current portion	(41,334)	(54,892)
Long-term portion	\$ 41,333	\$ 82,667

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NOTES PAYABLE ROLL FORWARD SCHEDULE

PROPERTY ACQUIRED	BALANCE 10/01/05	ADDITIONS	REDUCTIONS	BALANCE 9/30/06
W. Anaheim Street: 15 yrs, 10%	\$ 13,558	-0-	\$ 13,558	\$ -0-
W. 9 th St.: 14 yrs., 6%	124,001	-0-	41,334	82,667
	<u>\$ 137,559</u>	<u>-0-</u>	<u>\$ 54,892</u>	<u>\$ 82,667</u>

	BALANCE 10/01/04	ADDITIONS	REDUCTIONS	BALANCE 9/30/05
W. Anaheim Street: 15 yrs, 10%	\$ 27,117	-0-	\$ 13,559	\$ 13,558
W. 9 th St.: 14 yrs., 6%	165,334	-0-	41,333	124,001
	<u>\$ 192,451</u>	<u>-0-</u>	<u>\$ 54,892</u>	<u>\$ 137,559</u>

(8) Bonded Indebtedness

Outstanding bonded indebtedness as of September 30 is as follows:

	2006	2005
1998 Harbor Revenue Refunding Bonds		
maturing 2005 through 2019 at 5.0% to 6.0% interest	155,865,000	163,755,000
Plus unamortized premium	<u>2,051,498</u>	<u>2,213,994</u>
Total 1998 Harbor Revenue Refunding Bonds	157,916,498	165,968,994
2000A Harbor Revenue Bonds		
maturing 2005 through 2025 at 5.0% to 5.75% interest	248,085,000	255,355,000
Plus unamortized premium	<u>1,634,081</u>	<u>1,721,817</u>
Total 2000A Harbor Revenue Bonds	249,719,081	257,076,817
2002A Harbor Revenue Bonds (Variable rate portion)		
maturing 2006 through 2027.		
Average rates: 2.15% and 1.15%, respectively	137,480,000	140,950,000
Plus unamortized premium	<u>2,416,387</u>	<u>2,533,545</u>
Total 2002A Harbor Revenue Bonds	139,896,387	143,483,545
2002B Harbor Revenue Bonds (Fixed rate portion)		
maturing 2006 through 2027 at 3.0 to 5.5% interest	137,085,000	140,725,000
Plus unamortized premium	<u>6,400,718</u>	<u>6,711,056</u>
Total 2002B Harbor Revenue Bonds	143,485,718	147,436,056
2004A & B Harbor Revenue Refunding Bonds		
maturing 2006 through 2018 at 2.5 to 5.0% interest	101,525,000	107,990,000
Plus unamortized premium	<u>4,529,991</u>	<u>4,919,500</u>
Total 2005A & B Harbor Revenue Refunding Bonds	106,054,991	112,909,500
2005A & B Harbor Revenue Refunding Bonds		
maturing 2006 through 2025 at 3.5 to 5.0% interest	251,775,000	257,975,000
Plus unamortized premium	<u>7,102,123</u>	<u>7,483,444</u>
Total 2005A & B Harbor Revenue Refunding Bonds	258,877,123	265,458,444

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Summary:

Principal	\$ 1,031,815,000	1,066,750,000
Net premium	24,134,798	25,583,356
Less current portion	<u>(38,335,000)</u>	<u>(34,935,000)</u>
Net long term bonded indebtedness	<u>\$ 1,017,614,798</u>	<u>\$ 1,057,398,356</u>

HARBOR REVENUE BONDS PAYABLE ROLL FORWARD SCHEDULE

DESCRIPTION	BALANCE 10/01/05	ADDITIONS	REDUCTIONS	BALANCE 9/30/06	AMOUNTS DUE WITHIN ONE YEAR
1998	163,755,000	-0-	7,890,000	155,865,000	8,330,000
2000 A	255,355,000	-0-	7,270,000	248,085,000	7,670,000
2002 A	140,950,000	-0-	3,470,000	137,480,000	3,660,000
2002 B	140,725,000	-0-	3,640,000	137,085,000	3,790,000
2004 A & B	107,990,000	-0-	6,465,000	101,525,000	6,625,000
2005 A & B	257,975,000	-0-	6,200,000	251,775,000	8,260,000
	<u>\$ 1,066,750,000</u>	<u>\$ -0-</u>	<u>\$ 34,935,000</u>	<u>\$ 1,031,815,000</u>	<u>\$ 38,335,000</u>

DESCRIPTION	BALANCE 10/01/04	ADDITIONS	REDUCTIONS	BALANCE 9/30/05	AMOUNTS DUE WITHIN ONE YEAR
1995	\$ 301,055,000	\$ -0-	\$ 301,055,000	\$ -0-	\$ -0-
1998	171,240,000	-0-	7,485,000	163,755,000	7,890,000
2000 A	262,245,000	-0-	6,890,000	255,355,000	7,270,000
2002 A	144,240,000	-0-	3,290,000	140,950,000	3,470,000
2002 B	144,240,000	-0-	3,515,000	140,725,000	3,640,000
2004 A & B	113,410,000	-0-	5,420,000	107,990,000	6,465,000
2005 A & B	-0-	257,975,000	-0-	257,975,000	6,200,000
	<u>\$ 1,136,430,000</u>	<u>\$ 257,975,000</u>	<u>\$ 327,655,000</u>	<u>\$ 1,066,750,000</u>	<u>\$ 34,935,000</u>

Aggregate debt service requirements on bonded indebtedness to maturity are summarized as follows:

Year ending September 30,	Principal	Interest	Total
2007	38,335,000	54,043,216	92,378,216
2008	40,170,000	52,290,066	92,460,066
2009	42,215,000	50,303,991	92,518,991
2010	44,410,000	48,149,141	92,559,141
2011	46,750,000	45,843,691	92,593,691
2012-2016	274,805,000	188,447,783	463,252,783
2017-2021	285,805,000	108,771,969	394,576,969
2022-2026	238,395,000	39,335,156	277,730,156
2027	20,930,000	1,067,210	21,997,210
	<u>\$ 1,031,815,000</u>	<u>\$ 588,252,223</u>	<u>\$ 1,620,067,223</u>

Details of each outstanding debt issue are as follows:

1998 Harbor Revenue Refunding Bonds

The City of Long Beach Harbor Revenue Refunding Bonds Series 1998A (the 1998 Bonds) are secured by the Department's gross revenues. The 1998 Bonds, dated February 1, 1998, amounting to \$206,300,000, were issued to current refund all of the City's Harbor Revenue Bonds Series 1989A. The 1989 Bonds are defeased and the liability for those bonds was removed from the Department's balance sheet. No amounts remain outstanding as of September 30, 2006. Serial bonds aggregating to \$155,865,000 are outstanding and will mature on May 15 of each year from 2007 to 2019 in amounts ranging from \$8,330,000 to \$16,600,000 with interest payable semiannually on May 15 and November 15 at coupon rates ranging from 5% to 6%. The 1998 Bonds are not subject to optional or mandatory redemption before their respective maturity dates.

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Funds have been allocated at September 30, to the respective accounts in conformity with the bond resolution as follows:

	2006	2005
Service Account (Amount reserved to meet current debt service requirements)	\$ 6,598,632	\$ 6,596,363
Reserve Account (Amount reserved for maximum annual debt service requirements)	17,596,976	17,596,976
	<u>\$ 24,195,608</u>	<u>\$ 24,193,339</u>

The refunding resulted in a difference between the reacquisition price and net carrying amount on the old debt of \$8,736,386. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being amortized using the straight-line method over the life of the bonds.

2000A Harbor Revenue Bonds

The City of Long Beach Harbor Revenue Bonds Series 2000A (the 2000A Bonds) are secured by the Department's gross revenues. The 2000A Bonds, dated November 1, 2000, amounting to \$275,000,000 were issued to finance certain capital improvements at the Port, to fund capitalized interest on a portion of the debt issuance, to fund a reserve, and to finance the costs of issuance.

Serial bonds aggregating to \$248,085,000 will mature on May 15 of each year from 2007 to 2025 in amounts ranging from \$7,670,000 to \$20,180,000 with interest payable semiannually on May 15 and November 15 at coupon rates ranging from 5.25% to 5.75%. The 2000A Bonds maturing on or before May 15, 2010 will not be subject to call and redemption before maturity. Serial bonds maturing on or after May 15, 2011 are subject to call and redemption, prior to maturity, at the option of the Board of Harbor Commissioners, as a whole or in part on any date, on or after May 15, 2010 at premiums of 1%, from May 15, 2010 through May 14, 2011; at 0.5% from May 15, 2011 to May 14, 2012; and at par from May 15, 2012 and thereafter.

Funds have been allocated at September 30, to the respective accounts in conformity with the bond resolution as follows:

	2006	2005
Service Account (Amount reserved to meet current debt service requirements)	\$ 7,983,771	\$ 5,385,285
Reserve Account (Amount reserved for maximum annual debt service requirements)	21,922,295	21,784,826
	<u>\$ 29,906,066</u>	<u>\$ 27,170,111</u>

2002A Harbor Revenue Bonds (Variable Rate Portion)

The City of Long Beach Harbor Revenue Bonds Series 2002A (the 2002A Bonds) are secured by the Department's gross revenues. The 2002A Bonds were remarketed in the principal amount of \$144,240,000. The 2002A Bonds are dated with the original date of delivery of the original bonds: June 26, 2002.

Serial bonds aggregating to \$137,480,000 will mature on May 15 of each year from 2007 to 2027 in amounts ranging from \$3,660,000 to \$10,575,000 with interest rates re-set weekly and payable monthly in arrears. The initial variable rate was 1.15%, and the average variable rate from October 1, 2005 to September 30, 2006 was 3.25%.

Bonds maturing on or before May 15, 2014 are not subject to call and redemption prior to maturity; bonds maturing on or after May, 2015 will be subject to call and redemption prior to maturity, at the option of the Board, as a whole or in part on any date, on or after May 15, 2014, at a redemption price equal to the principal amount of the Series 2002A Bonds to be redeemed, plus accrued interest thereon to the date fixed for redemption, without premium.

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Funds have been allocated at September 30, in conformity with the bond resolution as follows:

	2006	2005
Service Account (Amount reserved for maximum annual debt service requirements)	\$ 1,372,500	\$ 1,301,250

2002B Harbor Revenue Bonds (Fixed Rate Portion)

The City of Long Beach Harbor Revenue Bonds Series 2002B (the 2002B Bonds) are secured by the Department's gross revenues. The 2002B Bonds were remarketed in the principal amount of \$144,240,000. The 2002B Bonds are dated with the original date of delivery of the original bonds: June 26, 2002.

Serial bonds aggregating to \$98,640,000 will mature on May 15 of each year from 2006 to 2023 in amounts ranging from \$3,790,000 to \$8,460,000 with interest payable semiannually on May 15 and November 15 at coupon rates ranging from 3.00% to 5.50%. Bonds maturing on or before May 15, 2014 are not subject to call and redemption prior to maturity; bonds maturing on or after May 15, 2014 will be subject to call and redemption prior to maturity, at the option of the Board, as a whole or in part on any date, on or after May 15, 2014, at a redemption price equal to the principal amount of the Series 2002B Bonds to be redeemed, plus accrued interest thereon to the date fixed for redemption, without premium.

Term bonds of \$38,445,000 will mature on May 15, 2027. The term bonds have an interest rate of 5.20%. Term bonds will be subject to call and redemption prior to maturity and redeemed at a redemption price equal to the par amount thereof from Mandatory Sinking Account Payments in amounts from \$8,895,000 to \$10,335,000, from 2024 to 2027, respectively, for the term bonds scheduled to mature on May 15, 2027.

Funds have been allocated at September 30, in conformity with the bond resolution as follows:

	2006	2005
Service Account (Amount reserved for maximum annual debt service requirements)	\$ 3,693,716	\$ 4,084,035

2004 A & B Harbor Revenue Refunding Bonds

The City of Long Beach Harbor Revenue Refunding Bonds Series 2004A & B (the 2004 Bonds) are secured by the Department's gross revenues. The 2004 Bonds, dated March 10, 2004, amounting to \$113,410,000, were issued to current refund and to defease all of the City's Harbor Revenue Bonds Series 1993, to pay the premium for the Bond Insurance Policy, to fund the Series 2004 Reserve Fund, and to finance the costs of issuance of the Series 2004 Bonds. The 1993 Bonds are defeased and the liability for those bonds was removed from the Department's statements of net assets. No amounts remain outstanding as of September 30, 2006.

Serial bonds aggregating to \$101,525,000 are outstanding and will mature on May 15 of each year from 2007 to 2018 in amounts ranging from \$6,625,000 to \$10,825,000 with interest payable semiannually on May 15 and November 15 at coupon rates ranging from 2.5% to 5%. The Series 2004 Bonds maturing on or before May 15, 2014 are not subject to call and redemption prior to maturity.

The Series 2004 Bonds maturing on or after May 15, 2015 will be subject to call and redemption prior to maturity, at the option of the Board, as a whole or in part on any date, on or after May 15, 2014, at a redemption price equal to the principal amount of the Series 2004 Bonds to be redeemed, plus accrued interest thereon to the date fixed for redemption, without premium.

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Funds have been allocated at September 30, to the respective accounts in conformity with the bond resolution as follows:

	2006	2005
Service Account (Amount reserved to meet current debt service requirements)	\$ 4,262,812	\$ 4,263,422
Reserve Account (Amount reserved for maximum annual debt service requirements)	11,372,550	11,372,752
	<u>\$ 15,635,362</u>	<u>\$ 15,636,174</u>

The refunding resulted in a difference between the reacquisition price and net carrying amount on the old debt of \$1,445,775. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being amortized using the straight-line method over the life of the bonds.

2005 A & B Harbor Revenue Refunding Bonds

The City of Long Beach Harbor Revenue Refunding Bonds Series 2005A & B (the 2005 Bonds) are secured by the Department's gross revenues. The 2005 Bonds, dated March 23, 2005, amounting to \$257,975,000, were issued to current refund and to defease all of the City's Harbor Revenue Bonds Series 1995, to pay the premium for the Bond Insurance Policies, to fund a reserve for the Series 2005 Bonds, and to finance the costs of issuance of the Series 2005 Bonds.

The 1995 Bonds are defeased and the liability for those bonds was removed from the Department's statements of net assets. No amounts remain outstanding as of September 30, 2006. Serial bonds aggregating to \$226,805,000 are outstanding and will mature on May 15 of each year from 2007 to 2025 in amounts ranging from \$8,260,000 to \$19,785,000 with interest payable semiannually on May 15 and November 15 at coupon rates ranging from 3.5% to 5%. Serial bonds aggregating to \$24,970,000 are outstanding and will mature on May 15 of 2017 and 2018 the amounts of \$13,430,000 to \$11,540,000 with interest payable semiannually on May 15 and November 15 at 5% coupon rate.

The Series 2005 Bonds maturing on or before May 15, 2015 are not subject to call and redemption prior to maturity. The Series 2005 Bonds maturing on or after May 15, 2016 are subject to call and redemption prior to maturity, at the option of the Board, as a whole or in part on any date, on or after May 15, 2015, at a redemption price equal to 100% of the principal amount of the Series 2005 Bonds to be redeemed, plus accrued interest thereon to the date fixed for redemption, without premium.

Funds have been allocated at September 30, to the respective accounts in conformity with the bond resolution as follows:

	2006	2005
Service Account (Amount reserved to meet current debt service requirements)	\$ 7,818,281	\$ 9,465,953
Reserve Account (Amount reserved for maximum annual debt service requirements)	20,858,236	20,989,327
	<u>\$ 28,676,517</u>	<u>\$ 30,455,280</u>

The refunding resulted in a difference between the reacquisition price and net carrying amount on the old debt of \$4,214,084. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being amortized using the straight-line method over the life of the bonds.

Debt Covenants

The Department's management believes that it has complied with all the covenants related to the outstanding debt as of September 30, 2006.

The Harbor Department of the City of Long Beach
Notes to the Financial Statements
September 30, 2006 and 2005

(9) Retirement Programs

The Department participates on a cost-sharing basis with the City in the California Public Employees' Retirement System (CalPERS), a defined benefit, agent multiple-employer pension system that acts as a common investment and administrative agent for entities in California.

The Department is billed by the City for its share of pension costs based upon rates established by CalPERS for the City's general employees. CalPERS does not calculate a separate pension obligation for the Department, therefore, no separate Department obligation can be presented herein. The Department paid \$3,459,949 and \$2,676,098 to the City, which was equal to its annual required contribution for fiscal year 2006 and 2005 respectively. There were no required contributions for fiscal year 2004.

As employees of the City, the Department's full-time employees are eligible to participate in CalPERS, becoming vested in the system after five years of service. Upon vesting, employees on tier 1 (those hired on or before October 20, 1989) and who retire at age 55 are entitled to receive an annual retirement benefit, payable for life, in an amount not to exceed 2.7% (with up to a 5% annual COLA increase) of their average salary during the highest paid year of employment for each year of credited service. Employees on tier 2 (those hired after October 20, 1989) who retire at age 55 are entitled to receive an annual retirement benefit, payable for life, in an amount not to exceed 2.7% (with up to a 2% annual COLA increase) of their average salary computed considering the three highest paid years of employment for each year of credited service.

On September 2004, the basis to compute the retirement benefits was unified under tier 1 with the exception of the COLA adjustment; this will remain the same as stated in the current stipulations. The system also provides death and disability benefits.

Further information regarding the City's participation in CalPERS may be found in the City's Comprehensive Annual Financial Report for the year ended September 30, 2006.

Deferred Compensation Plan

The City offers its employees the option to participate in a deferred compensation plan created in accordance with Internal Revenue Code Section 457 allowing them to defer or postpone receipt of income. Amounts so deferred may not be paid to the employee during employment with the City except for a catastrophic circumstance creating an undue financial hardship for the employee. Further information regarding the City's Deferred Compensation plan may be found in the City's Comprehensive Annual Financial Report for the year ended September 30, 2006.

(10) Operating Leases

The major portion of the Department's property is leased to others. Such property includes marine terminal facilities, special purpose facilities, office and commercial space, and land.

Some marine terminal facilities are leased under agreements that provide the tenants with preferential but not exclusive use of the facilities. Some leases provide for rentals based on gross revenues or, in the case of marine terminal facilities, on annual usage of the facilities. The leases and the preferential assignments generally provide for minimum rentals.

The Harbor Department of the City of Long Beach
Notes to the Financial Statements
September 30, 2006 and 2005

Property under lease at September 30, consists of the following:

	2006	2005
Land	\$ 740,095,100	\$ 716,201,100
Docks and wharves	451,436,211	438,922,381
Warehouses and sheds	47,762,500	47,757,752
Cranes and shiploaders	169,708,290	183,207,838
Buildings and other facilities	267,687,684	267,065,314
Infrastructure	657,778,631	656,877,920
Historical cost of leased property	2,334,468,416	2,310,032,305
Less accumulated depreciation	(571,617,314)	(508,513,461)
Book value of leased property	<u>\$ 1,762,851,102</u>	<u>\$ 1,801,518,844</u>

The future minimum rental-income under non-cancelable operating leases having an initial term in excess of one year is as follows:

Year ending September 30:	
2007	203,822,000
2008	200,875,000
2009	194,965,000
2010	184,783,000
2011	182,518,000
2012-2016	851,281,000
2017-2021	801,980,000
2022-2026	590,104,000
2027-2030	72,559,000
Total	<u>\$ 3,282,887,000</u>

(11) Investment in Joint Venture

Intermodal Container Transfer Facility Joint Powers Authority (ICTF)

The Department and the Harbor Department of the City of Los Angeles (the Venturers) entered into a joint venture agreement to form the Intermodal Container Transfer Facility Joint Powers Authority (ICTF) for the purposes of financing and constructing an intermodal facility (the Facility) to transfer containerized cargo between trucks and railroad cars. The Facility has been fully developed by and leased to Southern Pacific Transportation Company, now merged with Union Pacific Railroad (the Tenant); the Tenant has assumed operational responsibility.

The Venturers' share net income and equity distributions from ICTF equally. Audited balance sheets and statement of income and Venturers' equity (in condensed format) for the years ended June 30, 2006 and 2005 are as follows:

Condensed Balance Sheets

	2006	2005
Current assets	\$ 14,169,657	\$ 8,942,282
Property and equipment	3,275,189	3,383,220
Total assets	<u>17,444,846</u>	<u>12,325,502</u>
Current liabilities	3,524,138	8,121
Venturers' equity:		
Harbor Department of the City of Los Angeles	7,132,913	6,331,250
Harbor Department of the City of Long Beach	6,787,795	5,986,131
Total venturers' equity	<u>13,920,708</u>	<u>12,317,381</u>
Total liabilities and venturers' equity	<u>\$ 17,444,846</u>	<u>\$ 12,325,502</u>

The Harbor Department of the City of Long Beach
Notes to the Financial Statements
September 30, 2006 and 2005

Condensed Statement of Income and Venturers' Equity

	2006	2005
Operating revenue	\$ 8,522,355	\$ 7,050,152
Operating expense	(108,030)	(108,030)
Operating income	8,414,325	6,942,122
Interest income	189,002	143,424
Net income	8,603,327	7,085,546
Venturers' equity, July 1, 2005 and 2004	12,317,381	10,231,835
Cash disbursement to venturers	(7,000,000)	(5,000,000)
Venturers' equity, June 30, 2006 and 2005	\$ 13,920,708	\$ 12,317,381

Pursuant to an indenture of trust dated November 1, 1984, ICTF issued \$53,900,000 of 1984 Series A bonds on behalf of the Tenant to construct the Facility. In 1989, ICTF issued \$52,300,000 of 1989 Series A Refunding Revenue Bonds on behalf of the Tenant to advance refund the 1984 Series A Bonds.

In 1999, ICTF issued its Intermodal Container Transfer Facility Refunding Revenue Bonds, 1999 Series A. In connection with the issuance, Union Pacific Railroad Company and ICTF entered into a Second Amended and Restated Installment Sale and Security Agreement dated October 1, 1999. The proceeds of the 1999 Bonds, together with other funds, were used by ICTF to redeem all of the Intermodal Container Transfer Facility Refunding Revenue Bonds, 1989 Series A. The bonds are payable solely from payments by the Tenant under a long-term lease agreement for the use of the Facility.

The nature of the bonds is such that the long-term indebtedness is that of the Tenant and not of ICTF, the Department, or the Harbor Department of the City of Los Angeles. The ICTF financial statements for the year ended June 30, 2006, can be obtained from the Department.

(12) Commitments and Contingencies

The Department is subject to claims and lawsuits arising from the normal course of business. The City Attorney's office evaluates these claims on a regular basis. Department management may make provision for probable losses if deemed appropriate on advice of legal counsel. To the extent that such provision for damages is considered necessary, appropriate amounts are reflected in the accompanying financial statements.

Based upon information obtained from the City Attorney with respect to remaining cases, it is the opinion of management that the estimated liability for unreserved claims and suits will not have a material impact on the financial statements of the Department. Contract commitments and purchase orders for which materials or services were not received at September 30, 2006 and 2005 aggregated \$89,320,920 and \$149,118,234, respectively.

Risk Management

The Department currently carries an all-risk property insurance program covering loss or damage by fire and other risks (excluding earthquake and flood) with a loss limit of \$1,000,000,000. A total of \$500,000,000 of terrorism insurance coverage is also purchased from a combination of insurers.

To address third-party liability exposure, an excess liability insurance program is carried by the Department with total limits of \$150,000,000 in excess of a \$1,000,000 self-insured retention. The excess liability policy covers the Harbor Department's operations and includes acts of terrorism within the \$150,000,000 limit. In addition, the Department carries specialized insurance policies providing coverage for damage to owned vessels, damage to other vessels, and pollution liability.

The Harbor Department of the City of Long Beach
Notes to the Financial Statements
September 30, 2006 and 2005

The amount of settlements reached by the Department did not exceed the amount of insurance coverage in any of the past three fiscal years.

The Department funds annual contributions to an Insurance Reserve account intended to cover uninsured losses or the payment of deductibles and self-insured minimums. During fiscal year 2006, the Board of Harbor Commissioners approved the addition of \$3,000,000 to the reserve. The balances of the reserve for fiscal years 2006 and 2005 are \$ 39,813,446 and \$35,505,888, respectively. The balances consist of annual contributions plus interest earnings.

The Department participates in the City's self-insured workers' compensation program, and, during fiscal year 2006 and 2005 made payments to the City's Insurance Fund totaling \$1,248,759 and \$1,141,813, respectively, for permanent and temporary Department employees. Amounts in the City's Insurance Fund are accumulated to meet losses as they arise.

Claims expenditures and liabilities are reported when it is probable that a loss has been incurred and the amount of that loss, including those incurred but not reported, can be reasonably estimated. At September 30, 2006 and 2005, the Department has recognized litigation claim liabilities of \$2,385,000 for both years.

LIABILITY FOR COMMITMENTS AND CONTINGENCIAS ROLL FORWARD SCHEDULE				
DESCRIPTION	BALANCE 10/01/05	ADDITIONS	REDUCTIONS	BALANCE 9/30/06
Commitments and contingencies	\$ 2,385,000	\$ -0-	\$ -0-	\$ 2,385,000

	BALANCE 10/01/04	ADDITIONS	REDUCTIONS	BALANCE 9/30/05
Commitments and contingencies	\$ 3,000,000	\$ -0-	\$ 615,000	\$ 2,385,000

Potential Obligations related to the Alameda Corridor Transportation Authority

The Alameda Corridor Use and Operating Agreement was executed by the Department, the Harbor Department of the City of Los Angeles (Port of Los Angeles), the Alameda Corridor Transportation Authority (ACTA), and the Burlington Northern Santa Fe and Union Pacific Railroads. This Agreement provides for a payment of funds, known as a "Shortfall Advance," to be made, under certain circumstances, to ACTA by the Department and the Port of Los Angeles. Revenues generated by Use Fees and Container Charges, paid by the railroads, will be used to pay debt service on ACTA financing, to establish and maintain a reserve account, and to pay ACTA's reasonable expenses relating to administration of the rail corridor.

To the extent that the revenues from use and container charges are not sufficient to meet ACTA's obligations, the Department and the Port of Los Angeles have agreed to advance the funds necessary to make up the difference. This obligation began after completion of the Corridor project and is limited to a total of 40% of the total annual required amount, with the Department and the Port of Los Angeles each responsible for one-half, or 20% of the required amount.

ACTA's latest Notice of Estimated Shortfall Advances and Reserve Accounting Funding (the Notice) was transmitted to the Department on March 24, 2006. It is anticipated that there will be differences between estimates and actual results; the differences may be material. The projected shortfall based on the Notice submitted by ACTA for the fiscal year ending June 30, 2007 is expected to be approximately \$2.1 million, which ACTA indicates will be covered by other available resources. If ACTA is unable to cover the projected shortfall, both the Department and the Port of Los Angeles, could each be obligated to pay half of the shortfall. Any Shortfall Advance made by the Department and the Port of Los Angeles is reimbursable, with interest, by ACTA. Although ACTA has not provided an update to its projection of Shortfall Advances beyond the fiscal year ending June 30, 2007, ACTA indicates that it does not anticipate any future Shortfall Advance payments will be required. Estimates included in the Notice are dependent

The Harbor Department of the City of Long Beach
Notes to the Financial Statements
September 30, 2006 and 2005

upon the accuracy of the assumptions used by ACTA in its formulation. In accordance with the special initial funding provisions contained in Section 7.4(g) of the Use and Operating Agreement, ACTA and the Ports are required to fund a Reserve Account for these amounts. As such, as of September 30, 2006 and 2005, the Department has funded \$82,401,928 and \$77,746,613, respectively, of this required reserve and these amounts are included within restricted net assets in the accompanying statement of net assets.

New Gerald Desmond Bridge Matching Contribution

The Department is actively pursuing the replacement of the Gerald Desmond Bridge. The total cost to replace the bridge is estimated at \$800,000,000. The Department anticipates that funding of this project will come primarily from federal and State sources, some of which has already been committed. In order to receive this funding, the Department is required to have a matching amount.

In conjunction with the matching requirement, the Department has set aside \$54,340,000 and \$37,821,000 to provide for the local matching requirement associated with \$320,785,000 and \$116,100,000 in grants received as of June 30, 2006, and 2005, respectively. Additionally, in anticipation of the matching requirements related to future expected funding to cover the total estimated cost of the bridge, the Department has set aside and earmarked funds totaling \$25,860,914 and \$37,848,946 as of September 30, 2006 and 2005, respectively to provide the expected 10% local match related to future grants.

Green Port Infrastructure Commitment

In January 2005, the Department adopted a wide-ranging Green Port Policy that greatly expanded the Department's commitment to sustain the environment by establishing new guidelines for Port current operations and future development. Key provisions include protection of the community from the harmful impacts of Port operations and employment of state-of-the-art technology to minimize environmental impacts. Air emissions from ships at berth account for over one-third of all vessel air emissions. Providing electrification reduces emissions significantly. With electrification, or "cold ironing", vessels can shut down their auxiliary engines, while at berth, and plug into shore-side electric substations. Although the cost of adding electrical infrastructure is substantial, the Department has successfully negotiated with several tenants to modify their berthing arrangements and has set aside funds to help funding the infrastructural changes. The Green Port Infrastructure Reserve balance, as of September 30, 2006 and 2005, is \$104,025,887 and \$ 100,331,378, respectively. This balance consists of the \$100,000,000 initial contribution plus interest earnings.

Future Oil Well Abandonment Costs

Costs related to the abandonment and site clearance of oil properties (Abandonment Costs) purchased in March 1994 are based on estimates provided by the Department of Gas and Oil of the City of Long Beach. Estimates of Abandonment Costs are reviewed annually, and adjusted to reflect changes in abandonment practices, increased abandonment expenses, number and life of productive wells, general changes in the life of the oil field, and changes in oil price levels.

The estimates for the years ending September 30, 2006 and 2005 are \$18,300,000 and \$17,700,000. The amounts related to oil properties acquired in 1994 are presented as long-term abandonment cost liabilities in the financial statements.

FUTURE OIL WELL ABANDONMENT COST LIABILITY ROLL FORWARD SCHEDULE				
DESCRIPTION	BALANCE 10/01/05	ADDITIONS	REDUCTIONS	BALANCE 9/30/06
Oil abandonment liability	\$ 17,700,000	\$ 600,000	\$ -0-	\$ 18,300,000
DESCRIPTION	BALANCE 10/01/04	ADDITIONS	REDUCTIONS	BALANCE 9/30/05
Oil abandonment liability	\$ 17,000,000	\$ 700,000	\$ -0-	\$ 17,700,000

The Harbor Department of the City of Long Beach
Notes to the Financial Statements
September 30, 2006 and 2005

In a related matter, but separate from the long-term abandonment liability, the Department scheduled the closure of the existing bug farm, a bio-remediation site on Pier A West. This is a short-term project and the Port has recognized its part of the liabilities payable from current assets. The anticipated cost of this project is \$17,720,000.

Environmental Remediation

The Department purchased 725 acres of property in the Harbor District in 1994. The property contains soil requiring remediation of environmentally hazardous materials. The remediation is required only on the portion of the land that the Department chooses to develop. To the extent that such remediation is necessary, the Department's liability is mitigated by provisions in the purchase agreement that make Union Pacific Resource Company (UPRC), the seller, responsible for a portion of the remediation costs. UPRC was acquired by Anadarko Petroleum Co. (APC) who assumed this liability in accordance with the original purchase agreement. APC's responsibility is limited to a period not to exceed fifteen years and a maximum amount of \$112,500,000 according to the following table:

		Allocation:	
<u>Site Remediation Cost</u>		<u>APC</u>	<u>Department</u>
First	\$ 50 million	\$ 50,000,000	\$ -0-
Second	\$ 50 million	25,000,000	25,000,000
Third	\$ 50 million	12,500,000	37,500,000
Fourth	\$ 50 million	25,000,000	25,000,000
All Additional Costs		-0-	100%
Maximum Liability		<u>\$ 112,500,000</u>	

Currently, the Department has developed 131 acres and plans to develop 160 additional acres.

(13) Intergovernmental Expense

The City Council, by authority of City Charter Chapter XII, Section 1209 (c)(4) and with the approval of the Board of Harbor Commissioners, adopted a resolution to transfer 10% of the Department's net income for fiscal years 2005 and 2004 to the City's Tidelands Operating Fund (\$14,222,184 and \$9,499,689, respectively). This amount is reported as part of the Due to City of Long Beach account in the accompanying statements of net assets and as a non-operating expense in the statements of revenues, expenses, and changes in fund net assets.

(14) Environmental Mitigation Costs

The Department disbursed \$39,400,000 in fiscal 1997 to secure environmental mitigation credits. An agreement between the Department, the Harbor Department of the City of Los Angeles, and several federal and state regulatory agencies provided for the Department's purchase of land located within the wetlands restoration project at the Bolsa Chica Wetlands in Orange County, California. The land was transferred to the State in return for environmental mitigation credits to allow for the construction of up to 267 acres of landfill in the outer harbor area. During fiscal year 2006, the Department acquired additional \$11,400,000 of available environmental mitigation credits.

The cost incurred in the acquisition of the land has been classified as a non-current asset. As of September 30, 2006, the Department has completed landfills that required the utilization of \$6,521,932 of the available credits. No environmental mitigation credits were utilized in fiscal year 2006. The balance of environmental mitigation costs will be adjusted in the future as landfill credits are used for port development. The balance of the Environmental Mitigation Credits as of

The Harbor Department of the City of Long Beach
Notes to the Financial Statements
September 30, 2006 and 2005

September 30, 2006 and 2005 is \$44,278,068 and \$32,878,068, respectively.

(15) Net Assets

Net Assets is the difference between total assets and total liabilities. Increases or decreases in net assets may indicate improvement or deterioration of the Department's financial condition. The Department does not intend to liquidate capital assets to fund ongoing operations. Restricted assets are subject to external restrictions such as construction of capital assets, matching funding requirements for federally funded projects, repayment of long-term debt, and fulfillment of contractual obligations with third parties. Unrestricted net assets are available to fund the Department's continuing operations.

As of September 30, 2006, 2005, and 2004 the Department holds net assets as follows:

	September 30,		
	2006	2005	2004
Invested in capital assets, net of related debt	\$1,079,606,148	\$ 1,080,335,939	\$1,045,167,222
Restricted for capital projects			
City of Long Beach RDA - Westside	7,369,817	7,477,626	9,926,871
Capitalized interest	-0-	7,073,124	9,964,425
Environmental mitigation credits	44,278,068	32,878,068	32,878,068
Restricted for debt service	103,479,769	105,475,990	85,323,199
Restricted – Third party obligations – Non-related entity debt service contingency and matching contribution	162,602,842	153,416,559	147,293,788
Total restricted	\$ 317,730,496	\$ 306,321,367	\$ 285,386,351
Unrestricted			
Contributed capital – outside sources	30,427,546	30,427,546	42,969,490
Contributed capital – other City funds	13,253,752	13,253,752	14,188,744
Infrastructure	104,025,687	100,331,378	-0-
Other unrestricted	437,102,224	297,480,524	298,216,861
Total unrestricted	584,809,209	441,493,200	355,375,095
Total net assets	\$1,982,145,853	\$ 1,828,150,506	\$ 1,685,928,668

**Comprehensive
Annual
Financial
Report
of the**



**Long
Beach
Water
Department**

A Department of the City of Long Beach, California

For the Fiscal Year Ended September 30, 2006

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
OF THE
LONG BEACH WATER DEPARTMENT
(A Department of the City of Long Beach, California)**

**For the Fiscal Years Ended
SEPTEMBER 30, 2006 and 2005**

**KEVIN L. WATTIER
General Manager**

**B. ANATOLE FALAGAN
Deputy General Manager - Business**

**PAUL T. FUJITA
Director of Finance**

**SOKHALAY HONG
Senior Accountant**

**YUMINA B. CANGCO
Accountant II**

**Prepared by the Finance Division
of the
Business Bureau**

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INTRODUCTORY SECTION

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Comprehensive Annual Financial Report

of the

Long Beach Water Department (A Department of the City of Long Beach, California)

For the Fiscal Years Ended September 30, 2006 and 2005

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Long Beach Water Department

The Standard in Water Conservation &
Environmental Stewardship

DATE April 25, 2007
TO Board of Water Commissioners
FROM B. Anatole Falagan, Deputy General Manager - Business
SUBJECT Approval of Comprehensive Annual Financial Report for the fiscal year ended September 30, 2006

The Comprehensive Annual Financial Report (CAFR) of the Long Beach Water Department (Department), for the fiscal years ended September 30, 2006 and 2005, is attached. The Department's CAFR was prepared using the financial reporting requirements outlined in the Governmental Accounting Standards Board (GASB) Statement No. 34, which requires that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of a Management's Discussion and Analysis (MD&A). The Department's MD&A can be found immediately following the report of the independent auditors in the accompanying financial section. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it.

The CAFR for the Department is presented in three sections: Introductory, Financial and Statistical. The Introductory Section includes this letter of transmittal, the Government Finance Officers Association of the United States and Canada (GFOA) Certificate of Achievement in Financial Reporting for the Fiscal Year Ended September 30, 2005, the Department's organizational chart and a listing of the Board of Water Commissioners (Board) and staff members. The Financial Section presents the Independent Auditors' Report, the management discussion and analysis, the basic financial statements and related footnotes. The Statistical Section includes pertinent financial and operational data as it relates to the Department's operations, covering a ten-year historical trend where applicable. The Department's financial statements are also included in the City's Basic Financial Statements as enterprise funds (Water Fund and Sewer Fund).

Management assumes full responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures. We believe the data, as presented, is accurate in all material aspects; that it is presented in a manner designed to fairly set forth the financial position, results of operations, and cash flows of the Department; and that all disclosures necessary to enable the reader to gain the maximum understanding of the financial affairs of the Department have been included. The accompanying financial statements have been audited by an independent certified public accounting firm. The Department has contracted with the firm of KPMG LLP to provide this audit. In fiscal years 2004-2005 and 2005-2006, the audit was a cooperative effort of the Long Beach City Auditor's Office and KPMG LLP.

THE REPORTING ENTITY

The Department was established July 1, 1911, by the City Charter to regulate and control the use, sale and distribution of water owned or controlled by the City. In February 1988, the Department assumed the responsibility of the various functions of the City's sanitary sewer system, including operations and maintenance. In April, 1990, the citizens of Long Beach passed a City Charter amendment that allowed greater autonomy for the Department in administering the City's sanitary sewer operations.

The Board, established in 1931, governs the Department and is comprised of five members appointed by the Mayor, subject to confirmation by the City Council. Members of the Board serve overlapping five-year terms to provide continuity of operations. Also in 1931, the City became a member of the Metropolitan Water District of Southern California (MWD).

The Department's service area encompasses the boundaries of the City, an area of approximately 50 square miles, with a population of 490,166 and some customers outside the City limits. The Department is not subject to regulation by the California Public Utilities Commission.

WATER SUPPLY

The Department meets the needs of its customers through an increasingly diverse portfolio of water resources. Local groundwater, combined with imported supplies, water recycling and water conservation are used in combination to meet the water demands within the service area.

Groundwater

Ownership of water rights allows approximately half of Long Beach's water supply needs to be produced from groundwater wells located within the City. Before it reaches our customers' taps, local groundwater must journey many miles from its source high up in the mountains. Rain and snow-melt from the San Gabriel Mountains watershed travel through washes and creeks into the San Gabriel River and the Whittier Narrows Basin. From there it percolates underground through sand and water beds where it begins a lengthy subsurface journey to Long Beach. High-powered pumps then extract it from 29 active groundwater wells and pump it to our groundwater treatment plant.

During the 1940's and 1950's the population grew and the increased water demand in the San Gabriel Valley significantly reduced the flows southerly to the Central Basin, contributing to falling water tables. In 1959, to protect this vital source of local water supply, the Board initiated a lawsuit against major water producers in the San Gabriel Valley to guarantee water supplies to Central Basin producers.

Parties to the lawsuit negotiated a settlement which provided the basis of a stipulated judgment (the "Long Beach Judgment") rendered by the Superior Court on October 8, 1965. By separate action, a committee of Central Basin producers reached an agreement for voluntary reduction of pumpage within the basin to restore and protect the water table and to

expedite the above judgment to permanently prevent excessive pumping. The reduction in pumping began October 1, 1962. The two events were of major importance in securing local water supplies for the City. The Department is the largest producer of water in the Central Basin.

Imported Supplies

Another portion of the City's potable (drinking) water supply is treated water purchased from MWD. This water originates from two sources: the Colorado River Aqueduct and the State Water Project (SWP).

Through its 242-mile long system, the Colorado River Aqueduct provides up to a billion gallons of water a day to residents and businesses in Southern California's coastal plain. Water is taken in at Lake Havasu and carried to the reservoir facilities at Lake Mathews. The State Water Project delivers water originating from the Oroville Dam and Reservoir and the Sacramento River Delta. The SWP is an intricate network of dams, pumping plants, reservoirs, hydroelectric plants, the Sacramento and San Joaquin rivers and 440 miles of aqueducts that carry water to several Southern California reservoirs.

Water Recycling

During periods of inadequate water supply, effective water recycling will help stretch the potable water that is used in Long Beach every day; that is the primary reason the Department launched a reclaimed water system in 1978. Water that would otherwise flow to the ocean and be wasted is reclaimed and used to irrigate park land, golf courses, freeway landscaping and school grounds, as well as reduce our dependence on imported water.

The Department has a very successful reclaimed water program, utilizing the water for irrigation and for two very innovative programs: the use of reclaimed water for subsidence mitigation and for seawater barrier injection. We expect to continue to expand our reclaimed water system in order to make reclaimed water available to additional customers.

An important feature of the Department's reclaimed water program is that it is unaffected by single or multi-year droughts. The production of the reclaimed water plant exceeds the current and projected use of reclaimed water; so even drought conditions should not impact the ability of the Department to meet reclaimed water demands.

Conservation

The Department has an aggressive water conservation program that offers a variety of opportunities to conserve water across different sectors of the community and for both indoor and outdoor water uses.

Single-family and multi-family customers together are responsible for approximately two-thirds of the City's demand for water. Several of the Department's programs provide rebates to residential customers towards the purchase of water-efficient toilets and washing machines. Additionally, the Department has started identifying its highest-use residential water customers and offering them free water use inspections to identify opportunities to conserve water.

Most single-family residential water use appears to be for landscape irrigation. For these customers, the Department provides, at no cost to the customer, very well attended and received classroom instruction on the design, installation, and maintenance of California-friendly landscapes. Another innovative program is the Department's direct installation of weather-based irrigation controllers, a program under which we identify landscape accounts, offer free water-use studies and free installation of weather-based irrigation controllers.

In addition to spreading conservation to residential and landscape accounts, we work closely with commercial, industrial and institutional (CII) customers to help them conserve water. The Department has encouraged conservation through targeted direct marketing, through rebates for water conserving devices, and has consistently promoted conservation in the business community through advertisements and other promotional means.

The Department also actively promotes conservation through its work in the classrooms of the Long Beach Unified School District, the Miller Children's Hospital, and the Long Beach Aquarium of the Pacific. Long Beach Water Department promotes conservation by supporting community functions and making presentations at local and regional events, including advertising inserts in utility bills, and purchasing advertising space in environmental publications and local newspapers.

WATER QUALITY

A primary objective of the Department is to deliver to our customers water that meets or exceeds all Federal and State standards. The Department continues to be recognized as a leader in the area of water quality. Our extensive testing and Quality Assurance/Quality Control program ensures that water delivered to our customers is of the highest possible quality.

The Department conducts extensive sampling and testing of groundwater wells, water storage reservoirs, the water distribution system and, when appropriate, selected homes, businesses, schools and public facilities. This year, our Water Quality laboratories collected 15,676 samples and performed 57,581 tests for more than 140 drinking water contaminants while maintaining certification with the California Department of Health Services and Environmental Protection Agency (EPA).

Groundwater Treatment Plant and Water Quality Laboratory

On April 14, 1997, a 62.5 million-gallon per day Groundwater Treatment Plant and Water Quality Laboratory completed operational testing and was put into full operation on May 1, 1997. Long Beach has one of the most modern water treatment facilities in the world, coupled with four of the most advanced water quality laboratories. This combination helps explain why the City's high quality drinking water consistently meets or exceeds all Federal and state drinking water regulations.

During fiscal year 2006, the Groundwater Treatment Plant processed approximately 8.2 billion gallons of drinking water. Overall, 21.7 billion gallons of high-quality water was delivered to the Long Beach community.

The Department also operates the nation's first municipal state-of-the-art water bottling plant which eliminates the need for the City to continue to purchase bottled water for emergencies and for civic, charitable and community events.

The bottling equipment consists of a bottle riser, filler, capper, sealer and labeler. The equipment is able to process one-half liter, one-liter and one and a half liter bottles. The clean room has a sophisticated air-cleaning system consisting of HEPA filters, capable of removing most of the particulates in the air. The California Department of Health Services completed an extensive audit of the plant and certified the facility for operation on July 6, 2000.

MAJOR INITIATIVES

Reclaimed Water System Expansion

The Department remains committed to developing alternatives to imported potable (drinking) water supplies to meet the water needs of the City. In efforts to reduce our need to purchase imported water and to develop new sources of water, the Department has been working on several major projects. First, is the expansion of the City's reclaimed water system. The expansion was redesigned and rephased into five stages and the project includes the construction of 84,000 feet of pipelines in existing City streets, new pump stations and converting three (3) existing domestic water reservoirs to reclaimed water storage. When complete, the expansion program will more than double reclaimed water use in Long Beach from approximately 4,000 acre-feet to 9,000 acre-feet, annually. This project was the recipient of the 1997 California Water Awareness Program. Since 2000, the Department, in conjunction with the Water Replenishment District (WRD), has received a 25% matching grant from the U.S. Bureau of Reclamation. These grant funds are used for expansion of Long Beach's reclaimed water system and for the Alamitos Seawater Barrier Reclaimed Water Project; the latter includes the construction and operation of a 3.0 million gallons per day reverse osmosis water treatment plant, enabling WRD to use recycled water from the Long Beach Water Reclamation Plant to replace 3,000 acre-feet per year of imported water now being supplied to the Barrier.

In Long Beach, reclaimed water is wastewater that has been fully treated by a three stage (tertiary) process for industrial and irrigation uses. The Long Beach Water Reclamation Plant, operated by the Sanitation Districts of Los Angeles County, treats up to 25 million gallons of wastewater every day into clear, quality water that meets State standards for such reuse and is environmentally safe. Reclaimed water is used for irrigation purposes at the City's parks, golf courses, cemeteries and numerous garden nurseries. Other users include California State University Long Beach, Long Beach City College, the Long Beach Unified School District and Caltrans sites on the 405 and 605 Freeways and THUMS (a collaboration of oil producers operating four (4) off-shore oil islands).

Seawater Desalination Research

Since 1994, the Department has continued to pursue seawater desalination as a potential source of drinking water. In 1996, the Department received authorization for Federal cost-sharing of a seawater desalination demonstration project; and in fiscal year 2001, the Department received an earmark in the Federal fiscal year 2002 budget, making it the only newly funded water project by the Federal government in that budget. Federal funding continued in fiscal years 2003 through 2006. Through an innovative public sector partnership, the Long Beach Water Department along with the Los Angeles Department of Water & Power and the United States Bureau of Reclamation, has nearly completed construction and begun operation of a 300,000 gallon-per-day prototype desalination facility, one of the largest seawater desalination research and development facilities in the United States.

Conjunctive Use

The Department has also partnered with the Metropolitan Water District of Southern California, and the California Department of Water Resources on an innovative groundwater storage program. The \$4.5 million project, which is 100% funded by State of California Proposition 13, has stored 4.2 billion gallons of surplus water in the Central Groundwater Basin for later use during dry or drought conditions. A second, \$3.1 million joint conjunctive use project with the City of Lakewood is nearing completion. As of this report, an additional 586.5 million gallons have been stored as part of this project.

Water Distribution System

The City has an aging infrastructure, which needs to be maintained and in certain parts replaced. At September 30, 2006, the water distribution system totaled 907 miles of water mains with 89,471 active service connections.

During fiscal year 2006, the Department and contractors replaced 55,404 feet of deteriorated cast iron water mains with new ductile iron pipe. This critical replacement program addresses upgrading old pipelines, many of which were installed more than 50 years ago.

The City has approximately 175 old control valves 20 inches or more in diameter and 18,815 smaller control valves. The Department has a maintenance and replacement program to ensure that control valves are operational and that they can be turned off or on promptly during emergencies. During the year, the Department performed maintenance on 4,806 valves, repaired 43 and replaced 267.

The Department also renewed 1,238 water services utilizing copper pipe, replaced or repaired 259 fire hydrants, responded to 10,670 customer service requests and reviewed 1,833 high bill reports. The Department responds immediately, 24-hours a day, 365 days a year to water emergencies. During the year, the Department repaired 56 water main pipeline breaks citywide and tested, installed, repaired or exchanged 4,525 water meters.

With 29 active water wells across Long Beach supplying nearly half of the City's water, well maintenance is another ongoing project for the Department. Rehabilitation of water wells and storage tanks at Alamitos and J. Will Johnson Reservoirs continues to ensure a reliable supply of water in the future.

Sanitary Sewer Collection System

The Department has made considerable progress since 1988 in addressing the substantial challenges posed by an aging sanitary sewer infrastructure, much of which is between 60 and 80 years old. The first City-wide Sewer Master Plan, developed by the Department in 1991, provides a prioritization of the sewer deficiencies that must be addressed.

This year we completed 103 sewer lateral and sewer main pipeline repair jobs, repaired 193 private sewer lines damaged by the roots from City trees (including sidewalk replacement), chemically treated 3,000 of the approximately 16,000 sewer manholes to control vectors (roaches, other insects and rodents), and cleaned 474 of the 712 miles of sewer pipelines throughout the City.

Storm Drain System

Since 1999, the Department has been responsible for the operation and maintenance of the City's storm drain system, consisting of 3,612 catch basins, 180 miles of storm drain pipelines, numerous cross drains, 2,032 storm drain manholes and 23 pump stations. Effective October 1, 2003, the Department transferred ownership of and responsibility for City storm drain system assets back to the City's Department of Public Works. Under agreement with the City, the Water Department continues to operate and maintain the storm drain system for the City on a cost reimbursement basis. Effective June 1, 2004, the City's Department of Public Works took over responsibility for maintenance and operation of the City's 13 open channels (totaling 3.2 miles). During the year, the Water Department cleaned 5,110 catch basins, 131 cross drains and 169 grates.

RELEVANT FINANCIAL POLICIES

The Department's financial statements are presented on the accrual basis of accounting. As an enterprise fund, the cost of providing water is recovered through user charges assessed by meter size, volumetric charges and other miscellaneous charges. The cost of providing sewer service is also recovered through user and volumetric charges for all water customers who are connected to the City's sewers. Certain services, such as payroll, civil service, public service, general service, customer billing, data processing, legal, etc., are provided to the Department by other City departments; these costs are reimbursed to the City by journal voucher transfer of funds from the Water Fund or the Sewer Fund.

Internal Control Structure

In the development and enhancement of the accounting system, careful consideration is given to the adequacy of the internal controls designed to provide reasonable assurance regarding the safeguarding of assets against possible loss, unauthorized use or disposition; to ensure the reliability of financial records for preparing financial statements and maintaining accountability for assets, and to promote operational efficiency and compliance with

managerial policies. The concept of reasonable assurance recognizes that: (1) the cost of a specific control feature should not exceed the benefits likely to be derived, and; (2) the evaluation of costs and benefits requires continued estimates and judgment by management.

All internal control evaluations occur within the above stated framework. We believe that the internal control structure of the Department adequately safeguards assets and provides reasonable assurance that financial transactions are properly recorded.

Budgetary Control

The budget is a management control device for the forthcoming fiscal year. Prior to August 1 each year, the Board adopts an operating budget, which covers anticipated revenues and expenditures of the Department. The Department's budget is also subject to the approval of the City Council. By September 30 each year, the City Council shall approve the budget as adopted by the Board of Water Commissioners, or shall amend the budget and approve it as amended.

Budgets are prepared on a cash basis for revenues and for several categories of expenses. These budgets are not designed to be pro-forma statements of income and expense in the same format as the Water Department's financial statements. Instead, they are utilized primarily for controlling costs along organizational and programmatic lines. Each Bureau within the Department is responsible for outlays initiated by Divisions. Revenues are monitored only at the departmental level, except in certain areas where they are controlled by individual projects.

Risk Management

The Department participates in the City's self-insured program for workers' compensation, property and tort liability. The City and the Department's management believe that sufficient funds are being accumulated in the City's Insurance Internal Service Fund to meet losses as they arise. The Department contributes to the Insurance Internal Service Fund based on future projections and past loss experience. In addition, various risk control techniques, including safety training for all employees, regular property appraisals, and the inclusion of appropriate legal provisions in third party contracts, have been implemented to minimize risk losses.

Cash Management

To obtain flexibility in cash management, the City employs a pooled cash system. Under the City's pooling concept, all cash received or collected by the Department is required by City Charter to be deposited with the City Treasurer who administers the cash investment program. This includes cash from operations as well as funds restricted for Bond Service and Reserve accounts. Earnings are allocated monthly to all participating City agencies based on the average daily balance of pooled funds on deposit.

The City maintains a reasonable and safe return on its investments, and at the same time employs prudent investment policies to safeguard the City's cash assets and maintain adequate levels of liquidity. Quarterly reports are presented by the Department of Financial Management to the City Manager and City Council. The City's general investment strategies

are stated in a formal Statement of Investment Policy, which is reviewed and approved by the City Council on an annual basis.

AWARDS AND ACKNOWLEDGEMENTS

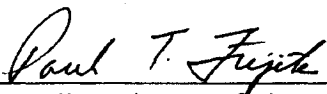
The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Department for its comprehensive annual financial report (CAFR) for the fiscal year ended September 30, 2005. The Certificate of Achievement is the highest form of recognition in the area of governmental accounting and financial reporting and its attainment represents a significant accomplishment by a government agency and its management. In order to be awarded a Certificate of Achievement, the Department must publish an easily readable and efficiently organized CAFR whose contents not only conform to the high program standards of the GFOA, but also satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

We would like to acknowledge the assistance of Sokhalay Hong, Senior Accountant, and Yumina Cangco, Accountant II, of the Business Bureau Finance Division in the preparation of this report.

It is recommended that the Board of Water Commissioners receive and file the Comprehensive Annual Financial Report for the period ended September 30, 2006.


Prepared by:


Paul T. Fujita, Director of Finance

Submitted and
Recommended by:


B. Anatole Falagan, Deputy General Manager - Business

Approved by:


Kevin L. Wattier, General Manager

Att.

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Certificate of Achievement for Excellence in Financial Reporting

Presented to
Long Beach Water Department
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2005

A Certificate of Achievement for Excellence in Financial
Reporting is presented by the Government Finance Officers
Association of the United States and Canada to
government units and public employee retirement
systems whose comprehensive annual financial
reports (CAFRs) achieve the highest
standards in government accounting
and financial reporting.

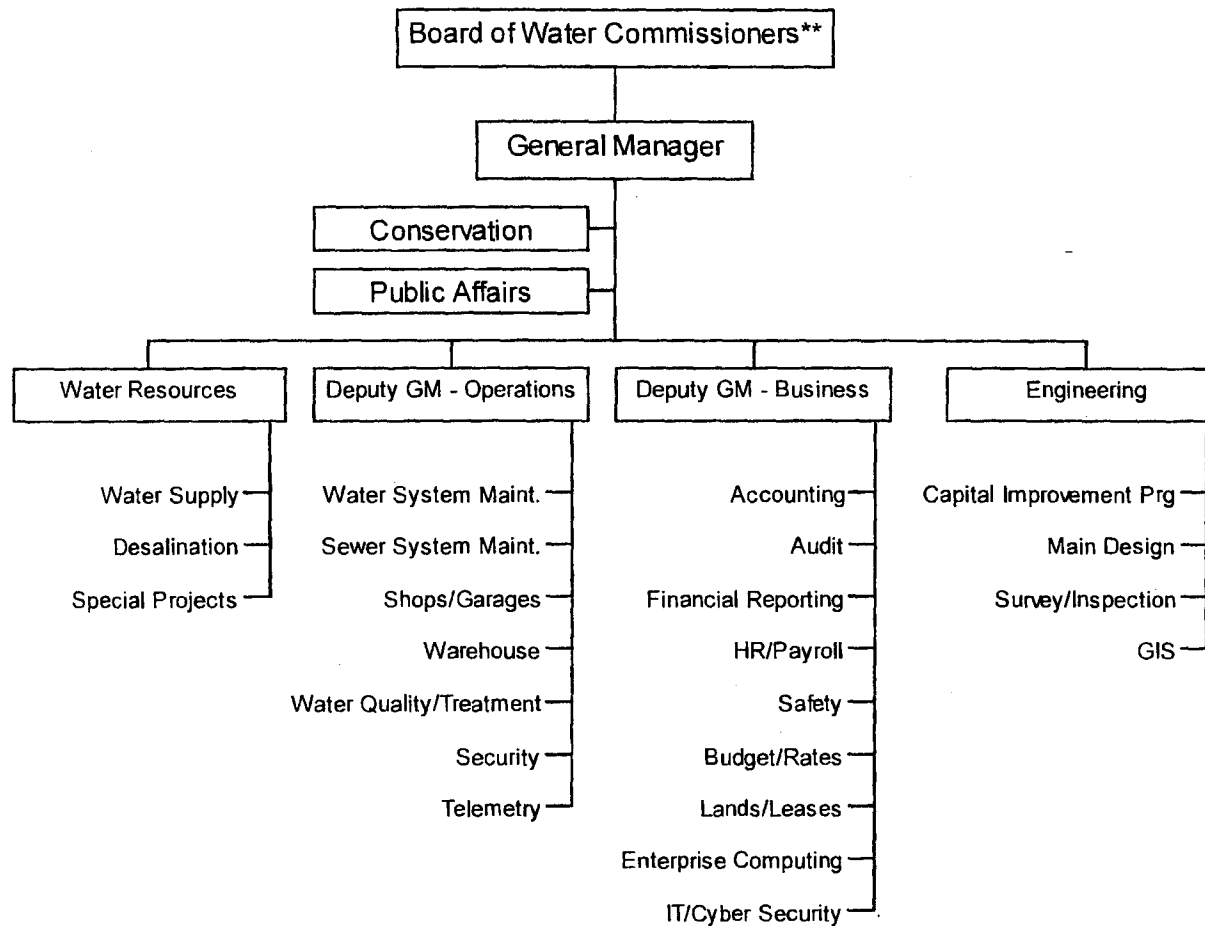


President

Executive Director



Long Beach Water Department Organizational Functions



**Members of the Board of Water Commissioners are appointed by the Mayor, confirmed by the City Council, and serve a maximum two five-year terms.

LONG BEACH WATER DEPARTMENT

BOARD OF WATER COMMISSIONERS

FRANK CLARKE	PRESIDENT
WILLIAM B. TOWNSEND	VICE PRESIDENT
STEPHEN T. CONLEY	SECRETARY
HELEN Z. HANSEN	MEMBER
LILLIAN Y. KAWASAKI	MEMBER

STAFF

KEVIN L. WATTIER
General Manager

B. ANATOLE FALAGAN
Deputy General Manager - Business

ROBERT C. CHENG
Deputy General Manager - Operations

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FINANCIAL SECTION

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KPMG LLP
Suite 2000
355 South Grand Avenue
Los Angeles, CA 90071-1568

Independent Auditors' Report

The Honorable City Council
City of Long Beach, California:

We have audited the accompanying financial statements of the business-type activities and each major fund of the Long Beach Water Department (the Department) of the City of Long Beach, California (the City), as of and for the years ended September 30, 2006 and 2005, which collectively comprise the Department's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

As discussed in note 1 of the notes to the basic financial statements, the financial statements of the Long Beach Water Department of the City of Long Beach, California, are intended to present the financial position, the changes in financial position, and cash flows of only that portion of the business-type activities of the City that are attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the City of Long Beach, California, as of September 30, 2006 and 2005, and the changes in its financial position and where applicable, its cash flows, thereof for the years then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of the Long Beach Water Department of the City of Long Beach, California, as of September 30, 2006 and 2005, and the changes in its financial position and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 12, 2007 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial

reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performance in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Management's discussion and analysis on pages 3 through 19 is not a required part of the basic financial statements, but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department's basic financial statements. The introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we express no opinion on them.

KPMG LLP

Los Angeles, California
June 12, 2007

LONG BEACH WATER DEPARTMENT

Management's Discussion and Analysis September 30, 2006 and 2005

As the management of the Long Beach Water Department (a department of the City of Long Beach), we offer readers of the Long Beach Water Department's basic financial statements this narrative overview and analysis of the financial activities of the Department for the fiscal years ended September 30, 2006 and 2005. We encourage readers to consider the information presented here in conjunction with the accompanying basic financial statements. The Long Beach Water Department (the Department) is comprised of the City's Water Enterprise Fund and Sewer Enterprise Fund operations. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

FINANCIAL HIGHLIGHTS

The Department's assets exceeded its liabilities at the close of fiscal year 2006 by \$277,798 (*net assets*). The Department's net assets are further broken down between the Water Enterprise Fund and Sewer Enterprise Fund below.

Water Enterprise Fund. Assets exceeded its liabilities at the close of fiscal year 2006 by \$225,551. Of this amount, \$10,914 (*unrestricted net assets*) is available to meet the Water Fund's ongoing obligations to creditors and customers. Unrestricted net assets represented 17.9% of the Water Fund's annual operating expenses for 2006 as compared with 19.3% for 2005. Total Water Fund net assets increased by \$7,036 (+3.2%) from the prior fiscal year. This increase is attributable to income of \$4,402 and capital contributions of \$2,634.

Sewer Enterprise Fund. Net assets totaled \$52,247 as of September 30, 2006, an increase of \$1,862 (+3.7%) from the prior fiscal year. The increase was attributable to income of \$1,862, with no capital contributions received for FY 2006. At the end of the current fiscal year, Sewer Fund unrestricted net assets represented 124% of annual operating expenses for 2006 as compared with 130% for 2005.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Department's basic financial statements. Because the Department is a business-type activity of the City of Long Beach, enterprise funds are used to account for its water and sewer operations. These basic financial statements include only the activities of the Department and provide comparative information for the last two fiscal years. Information on Citywide financial operating results is available in the City of Long Beach Comprehensive Annual Financial Report as of September 30, 2006.

The Department's basic financial statements are comprised of two components: 1) basic financial statements and 2) notes to the basic financial statements. Included as part of the

LONG BEACH WATER DEPARTMENT

Management's Discussion and Analysis September 30, 2006 and 2005

basic financial statements are the Statements of Net Assets, Statements of Revenues, Expenses and Changes in Fund Net Assets, and Statements of Cash Flows.

The *Statements of Net Assets* present the Department's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Department is improving or deteriorating.

The *Statements of Revenues, Expenses, and Changes in Fund Net Assets* presents information showing how the Department's net assets have changed during the most recent two fiscal years. Results of operations are recorded under the accrual basis of accounting, whereby transactions are reported as underlying events occur, regardless of the timing of cash flows. Thus, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods (i.e., accounts payable and accounts receivable). The Department's use of the accrual basis of accounting is more fully described in the accompanying *Notes to Basic Financial Statements*.

The *Statements of Cash Flows* present flows of cash and cash equivalents during the last two fiscal years, including certain restricted amounts.

The *Notes to Basic Financial Statements* provide additional information that is essential to the full understanding of the data provided in the basic financial statements and can be found on pages 23-40 of this report.

FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of the Department's financial position. A summary of the Department's Statements of Net Assets for the past three years is presented on page 5. As of September 30, 2006, Water Fund assets exceeded liabilities by \$225,551 and Sewer Fund assets exceeded liabilities by \$52,247, an increase in net assets over the prior fiscal year for both the Water and Sewer Funds of 3.2% and 3.7%, respectively. Net Assets are further categorized by investments in capital assets, and restricted and unrestricted net assets.

As of September 30, 2006, Investment in capital assets, such as production, transmission, and distribution facilities, less any related debt used to acquire those assets that remains outstanding, represent 93.2% and 81.6% of Water Fund and Sewer Fund net assets, respectively. The Department uses these capital assets to provide services to customers; consequently, these assets are not available for future spending. Resources needed to repay the outstanding debt on the Statements of Net Assets must come from other sources such as operations.

LONG BEACH WATER DEPARTMENT

Management's Discussion and Analysis September 30, 2006 and 2005

The restricted portion of the Water Fund's net assets (1.9% and 2.0% of total net assets as of September 30, 2006 and 2005, respectively) represents resources that are subject to external restrictions on how they may be used. These restrictions are for items such as debt repayment and other legally restricted purposes.

The unrestricted portion of the Department's net assets (4.8% and 18.4% for the Water and Sewer Funds, as of September 30, 2006, respectively) may be used to meet the Department's ongoing obligations to creditors and customers.

The Department's Condensed schedule of Net Assets as of September 30, 2006, 2005 and 2004 is as follows (in thousands):

Long Beach Water Department Condensed Statements of Net Assets September 30, 2006, 2005 and 2004 (In thousands)							
	2006	2005	2004	Variance			
				2006/2005		2005/2004	
				Amount	%	Amount	%
Assets:							
Current and other assets	\$ 34,282	\$ 33,441	\$ 31,466	\$ 841	2.5%	\$ 1,975	6.3%
Capital assets	291,093	283,421	271,935	7,672	2.7%	11,486	4.2%
Total assets	<u>325,375</u>	<u>316,862</u>	<u>303,401</u>	<u>8,513</u>	<u>2.7%</u>	<u>13,461</u>	<u>4.4%</u>
Liabilities:							
Current liabilities	11,151	10,356	11,185	795	7.7%	(829)	-7.4%
Long-term liabilities	36,426	37,606	38,725	(1,180)	-3.1%	(1,119)	-2.9%
Total liabilities	<u>47,577</u>	<u>47,962</u>	<u>49,910</u>	<u>(385)</u>	<u>-0.8%</u>	<u>(1,948)</u>	<u>-3.9%</u>
Net Assets:							
Invested in capital assets, net of related debt	252,901	244,165	231,667	8,737	3.6%	12,498	5.4%
Restricted	4,355	4,316	4,298	39	0.9%	18	0.4%
Unrestricted	20,542	20,419	17,527	123	0.6%	2,892	16.5%
Total net assets	<u>\$ 277,798</u>	<u>\$ 268,900</u>	<u>\$ 253,492</u>	<u>\$ 8,898</u>	<u>3.3%</u>	<u>\$ 15,408</u>	<u>6.1%</u>

LONG BEACH WATER DEPARTMENT

Management's Discussion and Analysis September 30, 2006 and 2005

The Department's financial position is further broken down as follows between the Department's Water Enterprise Fund and the Sewer Enterprise Fund as of September 30, 2006, 2005 and 2004:

Condensed Schedules of Net Assets September 30, 2006, 2005 and 2004 (in thousands)

	2006	2005	2004	Variance			
				2006/2005		2005/2004	
Water Enterprise Fund				Amount	%	Amount	%
Assets:							
Current and other assets	\$ 23,684	\$ 23,705	\$ 24,163	\$ (21)	-0.1%	\$ (458)	-1.9%
Capital assets	248,474	242,215	231,335	6,259	2.6%	10,880	4.7%
Total assets	<u>272,158</u>	<u>265,920</u>	<u>255,498</u>	<u>6,238</u>	<u>2.3%</u>	<u>10,422</u>	<u>4.1%</u>
Liabilities:							
Current liabilities	10,181	9,799	10,207	382	3.9%	(408)	-4.0%
Long-term liabilities	36,426	37,606	38,725	(1,180)	-3.1%	(1,119)	-2.9%
Total liabilities	<u>46,607</u>	<u>47,405</u>	<u>48,932</u>	<u>(798)</u>	<u>-1.7%</u>	<u>(1,527)</u>	<u>-3.1%</u>
Net Assets:							
Invested in capital assets, net of related debt	210,282	202,958	191,067	7,324	3.6%	11,891	6.2%
Restricted	4,355	4,316	4,298	39	0.9%	18	0.4%
Unrestricted	10,914	11,240	11,202	(326)	-2.9%	38	0.3%
Total net assets	<u>\$ 225,551</u>	<u>\$ 218,514</u>	<u>\$ 206,567</u>	<u>\$ 7,037</u>	<u>3.2%</u>	<u>\$ 11,947</u>	<u>5.8%</u>
Sewer Enterprise Fund							
Assets:							
Current assets	\$ 10,598	\$ 9,736	\$ 7,303	\$ 862	8.9%	2,433	33.3%
Capital assets	42,619	41,206	40,600	1,413	3.4%	606	1.5%
Total assets	<u>53,217</u>	<u>50,942</u>	<u>47,903</u>	<u>2,275</u>	<u>4.5%</u>	<u>3,039</u>	<u>6.3%</u>
Liabilities:							
Current liabilities	970	557	978	413	74.1%	(421)	-43.0%
Net Assets:							
Invested in capital assets, net of related debt	42,619	41,206	40,600	1,413	3.4%	606	1.5%
Unrestricted	9,628	9,179	6,325	449	4.9%	2,854	45.1%
Total net assets	<u>\$ 52,247</u>	<u>\$ 50,385</u>	<u>\$ 46,925</u>	<u>\$ 1,862</u>	<u>3.7%</u>	<u>\$ 3,460</u>	<u>7.4%</u>

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Fiscal Year Ended September 30, 2006 compared to 2005

Water Enterprise Fund. Net assets increased by \$7,037 (+3.2%) compared to FY 2005, with 63% of the increase attributable to on-going revenues in excess of on-going expenses of \$4,402. The remainder (37% of total increase) is due to contributed capital totaling \$2,634 from the receipt of State and Federal grants for reclaimed water, conjunctive use well and seawater desalination capital projects totaling \$1,922, and contributed capital from developer project water infrastructure improvements totaling \$713. Current and other assets decreased by \$21 (-0.1%) from FY 2005. The decrease is primarily from the net effect of amortization of deferred charges and a decrease in accounts receivable from the prior year, offset by increases in unrestricted cash and amounts due from other funds. The change in accounts receivable is primarily attributable to prior fiscal year end large receivables for potable water sales to WRD for groundwater banking, WRD in-lieu replenishment incentive programs, and grants receivable. Increases in current liabilities of \$382 (+3.9%) over the prior year are primarily attributable to increases in accounts payable, including purchased water accruals at year end.

Sewer Enterprise Fund. Net assets increased by \$1,862 (+3.7%) compared to FY 2005. The increase was attributable to revenues in excess of expenses of \$1,862. For FY 2006, there were no capital contributions related to sewer infrastructure improvements, compared to FY 2005 capital contributions totaling \$585 received from developer sewer infrastructure improvements. Current assets increased by \$862 (+8.9%) compared to the prior year, primarily attributable to increases in unrestricted cash from operations. Current liabilities increased by \$413 (+74.1%) compared to FY 2005 mainly due to increases in accounts payable associated with construction contracts.

Fiscal Year Ended September 30, 2005 compared to 2004

Water Enterprise Fund. Net assets increased by \$11,947 (+5.8%) over FY 2004. Approximately 47% of this increase was attributable to revenues in excess of expenses of \$5,659. The remaining 53% (\$6,289) is due to contributed capital from State and Federal grants totaling \$5,018, and contributed capital from developers totaling \$1,271. FY 2005 current and other assets decreased by \$458 (-1.9%) from FY 2004, reflecting decreases in cash reserves due primarily to payments for capital acquisitions. The decrease in cash reserves was offset by increases in accounts receivable and the recognition of \$1,497 in prepaid replenishment assessments (pump tax) to the Water Replenishment District of Southern California (WRD) on 13,000 acre feet of potable water stored in-lieu in the ground water basin.

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Sewer Enterprise Fund. Net assets increased \$3,460 (+7.4%) over 2004 due to revenues in excess of expenses of \$2,875 and contributed capital from developers totaling \$585. Current assets increased \$2,433 (+33.3%) from FY 2004. The increase was due primarily to increases in cash reserves from revenues in excess of operating expenses.

The Water Department's Condensed Schedule of Revenues, Expenses and Changes in Fund Net Assets provide insight as to the nature and source of changes in net assets and are summarized as follows for the years ended September 30, 2006, 2005, and 2004 (in thousands):

Long Beach Water Department
Condensed Schedules of Revenues, Expenses, and Changes in Fund Net Assets
Fiscal Years Ended September 30, 2006, 2005 and 2004
(in thousands)

	2006	2005	2004	Variance			
				2006/2005		2005/2004	
				Amount	%	Amount	%
Operating Revenues:							
Metered water sales	\$ 49,931	\$ 49,090	\$ 49,759	\$ 841	1.7%	\$ (669)	-1.3%
Reclaimed water sales	1,600	1,388	1,747	212	15.3%	(359)	-20.5%
Service charges	17,317	16,930	16,283	387	2.3%	647	4.0%
Maintenance services	780	732	833	48	6.6%	(101)	-12.1%
Other services	5,690	6,100	3,843	(410)	-6.7%	2,257	58.7%
Total operating revenues	75,318	74,240	72,465	1,078	1.5%	1,775	2.4%
Operating Expenses:							
Cost of water	19,179	20,936	18,581	(1,757)	-8.4%	2,355	12.7%
Personal services	15,663	15,379	14,484	284	1.8%	895	6.2%
Maintenance and other	17,044	12,395	14,608	4,649	37.5%	(2,213)	-15.1%
Depreciation	9,118	9,335	9,000	(217)	-2.3%	335	3.7%
In-lieu taxes and franchise fees	4,570	4,047	3,175	523	12.9%	872	27.5%
Other	3,144	3,296	3,522	(152)	-4.6%	(226)	-6.4%
Total operating expenses	68,718	65,388	63,370	3,330	5.1%	2,018	3.2%
Operating income	6,600	8,852	9,095	(2,252)	-25.4%	(243)	-2.7%
Non-Operating Income (Expense):							
Interest income	1,019	769	690	250	32.5%	79	11.4%
Interest expense	(2,255)	(2,253)	(2,243)	(2)	0.1%	(10)	0.4%
Loss on disposition of property	(225)	(137)	(285)	(88)	63.9%	148	-51.9%
Rents	733	804	700	(71)	-8.8%	104	14.9%
Other income, net	392	499	1,104	(107)	-21.5%	(605)	-54.8%
Income before contributed capital	6,264	8,534	9,061	(2,270)	-26.6%	(527)	-5.8%
Capital contributions	2,634	6,874	3,029	(4,240)	-61.7%	3,845	126.9%
Transfers out	-	-	(1,849)	-	-	1,849	-100.0%
Change in net assets	8,898	15,408	10,241	(6,510)	-42.3%	5,167	50.5%
Beginning net assets	268,900	253,492	243,251	15,408	6.1%	10,241	4.2%
Ending net assets	\$ 277,798	\$ 268,900	\$ 253,492	\$ 8,898	3.3%	\$ 15,408	6.1%

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Management's Discussion and Analysis September 30, 2006 and 2005

The Department's operations are further broken down as follows between the Department's Water Enterprise Fund and the Sewer Enterprise Fund for the years ended September 30, 2006, 2005 and 2004:

Water Enterprise Fund Condensed Schedules of Revenues, Expenses, and Changes in Fund Net Assets Fiscal Years Ended September 30, 2006, 2005 and 2004 (in thousands)

	2006	2005	2004	Variance			
				2006/2005		2005/2004	
				Amount	%	Amount	%
Operating Revenues:							
Metered water sales	\$ 46,877	\$ 45,966	\$ 46,472	\$ 911	2.0%	\$ (506)	-1.1%
Reclaimed water sales	1,600	1,388	1,747	212	15.3%	(359)	-20.5%
Service charges	12,727	12,302	11,648	425	3.5%	654	5.6%
Other services	4,870	4,866	3,318	4	0.1%	1,548	46.7%
Total operating revenues	66,074	64,522	63,185	1,552	2.4%	1,337	2.1%
Operating Expenses:							
Cost of water	19,179	20,936	18,581	(1,757)	-8.4%	2,355	12.7%
Personal services	12,974	12,731	11,572	243	1.9%	1,159	10.0%
Maintenance and other	14,576	10,159	11,941	4,417	43.5%	(1,782)	-14.9%
Depreciation	7,885	8,174	7,852	(289)	-3.5%	322	4.1%
In-lieu taxes and franchise fees	4,570	4,047	3,175	523	12.9%	872	27.5%
Other	1,797	2,273	2,483	(476)	-20.9%	(210)	-8.5%
Total operating expenses	60,981	58,320	55,604	2,661	4.6%	2,716	4.9%
Operating income	5,093	6,202	7,581	(1,109)	-17.9%	(1,379)	-18.2%
Non-Operating Income (Expense):							
Interest income	653	556	541	97	17.5%	15	2.8%
Interest expense	(2,255)	(2,253)	(2,243)	(2)	0.1%	(10)	0.4%
Loss on disposition of property	(213)	(137)	(285)	(76)	55.4%	148	-51.9%
Rents	733	804	700	(71)	-8.8%	104	14.9%
Other income, net	391	487	1,099	(96)	-19.7%	(612)	-55.7%
Income before contributed capital	4,402	5,659	7,393	(1,257)	-22.2%	(1,734)	-23.5%
Capital contributions	2,634	6,289	2,649	(3,655)	-58.1%	3,640	137.4%
Change in net assets	7,036	11,948	10,042	(4,912)	-41.1%	1,906	19.0%
Beginning net assets	218,515	206,567	196,525	11,948	5.8%	10,042	5.1%
Ending net assets	\$ 225,551	\$ 218,515	\$ 206,567	\$ 7,036	3.2%	\$ 11,948	5.8%

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Sewer Enterprise Fund Condensed Schedules of Revenues, Expenses, and Changes in Fund Net Assets Fiscal Years Ended September 30, 2006, 2005 and 2004 (in thousands)

	2006	2005	2004	Variance			
				2006/2005		2005/2004	
				Amount	%	Amount	%
Operating Revenues:							
Metered water sales	\$ 3,054	\$ 3,124	\$ 3,287	(70)	-2.2%	\$ (163)	-5.0%
Service charges	4,590	4,628	4,635	(38)	-0.8%	(7)	-0.2%
Maintenance services	780	732	833	48	6.6%	(101)	-12.1%
Other services	820	1,234	525	(414)	-33.5%	709	135.0%
Total operating revenues	<u>9,244</u>	<u>9,718</u>	<u>9,280</u>	<u>(474)</u>	<u>-4.9%</u>	<u>438</u>	<u>4.7%</u>
Operating Expenses:							
Personal services	2,689	2,648	2,912	41	1.5%	(264)	-9.1%
Maintenance and other	2,468	2,236	2,667	232	10.4%	(431)	-16.2%
Depreciation	1,233	1,161	1,148	72	6.2%	13	1.1%
Other	1,347	1,023	1,039	324	31.7%	(16)	-1.5%
Total operating expenses	<u>7,737</u>	<u>7,068</u>	<u>7,766</u>	<u>669</u>	<u>9.5%</u>	<u>(698)</u>	<u>-9.0%</u>
Operating income	1,507	2,650	1,514	(1,143)	-43.1%	1,136	75.0%
Non-Operating Income (Expense):							
Interest income	366	213	149	153	71.8%	64	43.0%
Loss on disposition of property	(12)	-	-	(12)	-	-	-
Other income, net	1	12	5	(11)	-95.2%	7	140.0%
Income before contributed capital and transfers out	1,862	2,875	1,668	(1,013)	-35.2%	1,207	72.4%
Capital contributions	-	585	380	(585)	-100.0%	205	53.9%
Transfers out	-	-	(1,849)	-	-	1,849	-100.0%
Change in net assets	1,862	3,460	199	(1,598)	-46.2%	3,261	1639%
Beginning net assets	50,385	46,925	46,726	3,460	7.4%	199	0.4%
Ending net assets	<u>\$ 52,247</u>	<u>\$ 50,385</u>	<u>\$ 46,925</u>	<u>\$ 1,862</u>	<u>3.7%</u>	<u>\$ 3,460</u>	<u>7.4%</u>

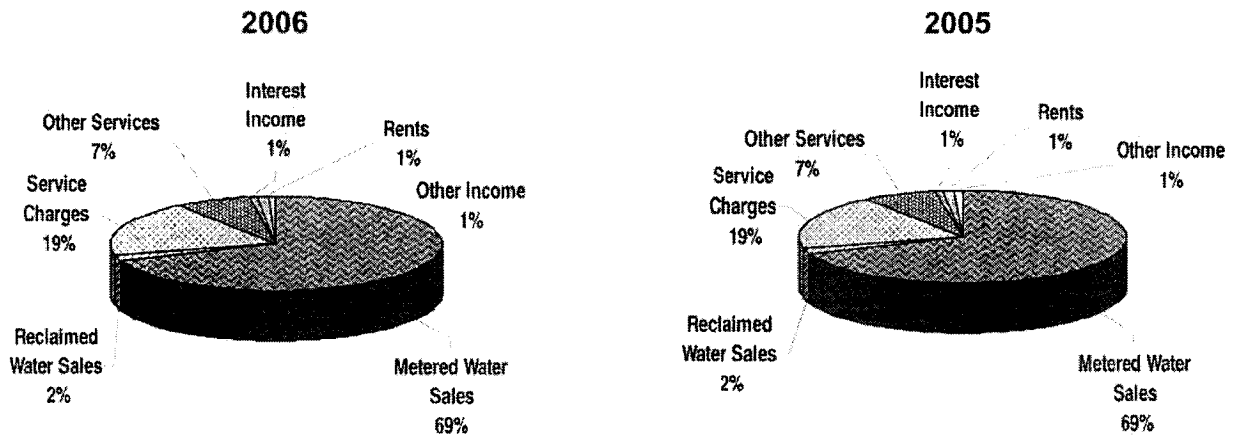
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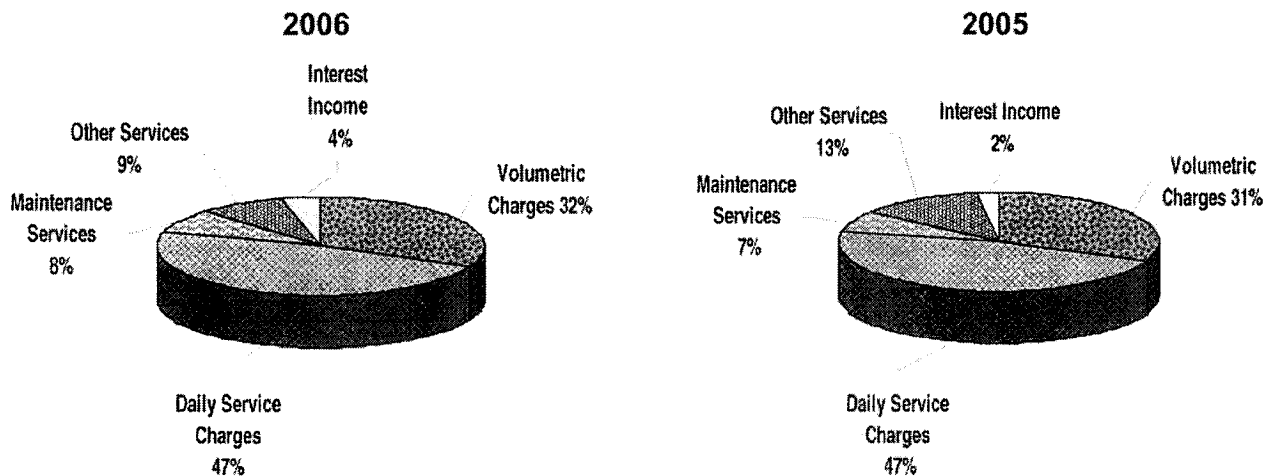
Sources of Revenues

Sources of revenue for fiscal years 2006 and 2005 are shown on the following charts.

Water Enterprise Fund



Sewer Enterprise Fund



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Management Review of the Department's Revenues.

Water Enterprise Fund

Fiscal Year Ended September 30, 2006 compared to 2005

Total operating revenues were \$66,074, an increase of \$1,552 (+2.4%) over FY 2005. Metered potable water sales increased \$911 (+2.0%) reflecting a 4% general rate increase effective October 1, 2005, which was offset by a minor decrease in demand compared to the previous year and an adjustment to Harbor Department accounts for a metered billing correction. Reclaimed water sales were up \$212 (+15.3%) over the prior year reflecting both the 4% rate increase and a return to normal irrigation usage patterns compared to the prior year's low demand due to record winter rains. Daily service charges increased \$425 (+3.5%) over FY 2005 as a result of the 4% general rate increase.

Revenue from Other Services totaled \$4,870, which represents a net +0.1% increase over the prior year. The underlying major sources of revenue changed substantially from the prior year. On October 1, 2005, the Department, under contractual agreement with WRD, took over operating and maintenance responsibilities of WRD's Leo J. Vander Lans Water Treatment facility (LJVL facility). Located in east Long Beach next to the Los Angeles County Sanitation District's Long Beach Water Reclamation Plant, the LJVL facility treats recycled water for use in the Alamitos Seawater Intrusion Barrier.

At full capacity, the LJVL facility is expected to supplant up to half of the potable water used for the barrier annually. Revenue from the LJVL facility operating contract totaled \$1,928. Sales of potable water to WRD for the Alamitos Seawater Intrusion Barrier totaled \$622, a decrease of \$1,382 (-222%) from the prior year. The decrease is a result of both LJVL facility reclaimed water production and the shut down of barrier operations for repairs and maintenance for several months during FY 2006.

Fiscal Year Ended September 30, 2005 compared to 2004

Total operating revenues were \$64,522 for FY 2005, an increase of \$1,337 (+2.1%) over FY 2004. Metered potable water sales and reclaimed water sales were down \$506 (-1.1%) and \$359 (-20.5%) respectively from FY 2004, reflecting decreased demand due to record winter rains during the year. The heavy rains had a greater impact on reclaimed water demand as it is primarily used for irrigation. The decreases in demand were offset by a 4.5% rate increase effective at the beginning of the fiscal year. Daily service charges increased \$654 (+5.6%) over FY 2004 as a result of the 4.5% general rate increase.

The majority of Other Services are attributable to sales of potable water to WRD for the Alamitos Seawater Intrusion Barrier. WRD uses potable water for injection into the ground in several strategic locations throughout the central basin at a rate of

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approximately 6,000 acre feet annually in order to protect the coastal groundwater basins from seawater intrusion. Increases in Other Services of \$1,548 (+46.7%) over FY 2004 reflect increased sales of potable water to the WRD for the seawater intrusion barrier and \$720 in WRD incentive payments for 6,000 acre feet of in-lieu groundwater basin replenishment water. In-lieu replenishment of the groundwater basin is achieved by shifting the supply of potable water for domestic demand from groundwater pumping to purchased treated potable from the Metropolitan Water District of Southern California (MWD).

Sewer Enterprise Fund

Fiscal Year Ended September 30, 2006 compared to 2005

Total operating revenues were down \$474 (-4.9%) from FY 2005. Revenue from other services was down \$414 (-33.5%) which is primarily attributable to decreased receipts of sewer capacity charges, which are charges assessed on new building construction in the City. Metered sales and daily service charges were down by \$70 (-2.2%) and \$38 (-0.8%), respectively. The decrease in metered sales is attributable to lower residential usage. Residential customer metered sales volume is based on average potable water usage during the winter months from the previous year, which experienced record levels of rain. Maintenance services increased by \$48 (+6.6%) due to increased reimbursements from the City for operation and maintenance of the City's storm drain system. In FY 2004, ownership of and responsibility for City storm drain system assets totaling \$1,849 (net of accumulated depreciation) was transferred to the City's Public Works Department effective October 1, 2003. Under agreement with the City, the Water Department continues to operate and maintain the storm drain system on a cost reimbursement basis.

Fiscal Year Ended September 30, 2005 compared to 2004

FY 2005 sewer fund daily service charges were relatively flat compared to FY 2004 while metered sales decreased by \$163 (-5.0%). The decrease in sewer metered sales is attributable to the decrease in potable water demand for the year. Revenue from Other Services increased by \$709 (+135%) over FY 2004 due to the receipt of sewer capacity charges from the development of several large multi-family residential and commercial projects.

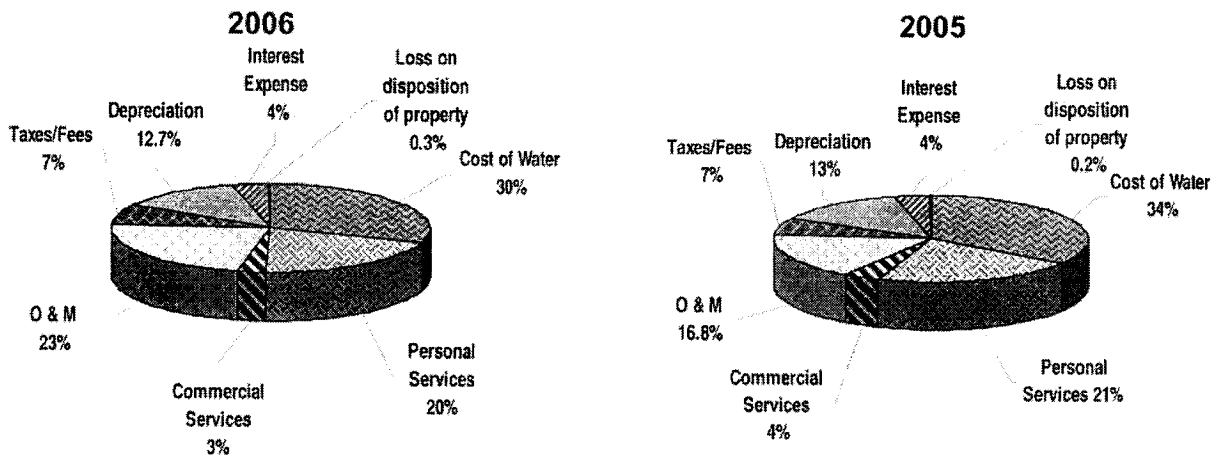
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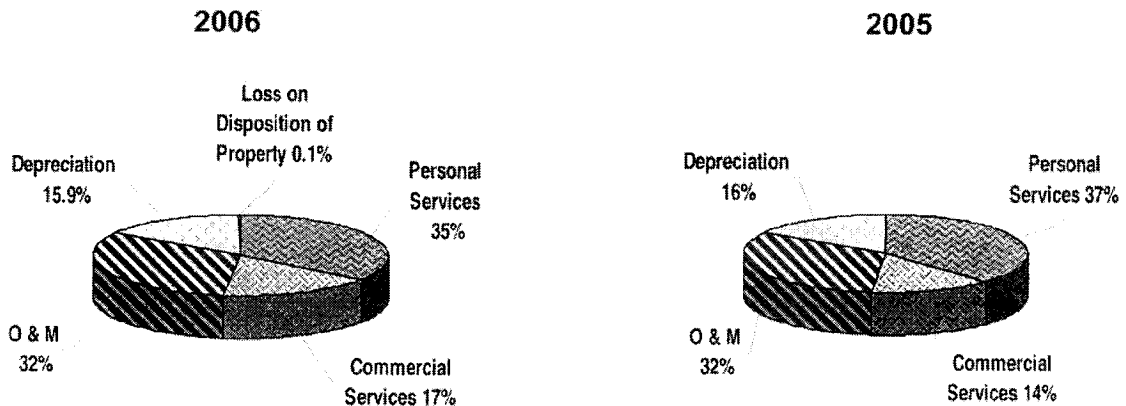
Functional Expenses

Functional expenses for the 2006 and 2005 fiscal years are shown on the following charts.

Water Enterprise Fund



Sewer Enterprise Fund



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Management Review of the Department's Expenses.

Water Enterprise Fund

Fiscal Year Ended September 30, 2006 compared to 2005

FY 2006 operating expenses totaled \$60,981, an increase of \$2,661 (+4.6) over FY 2005. Key elements of this increase are as follows:

- Maintenance and other cost increased \$4,417 (+43.5%), which includes operating and maintenance costs totaling \$1,937 associated with the Department taking over operation of WRD's LJVL water treatment facility. The LJVL facility operating costs are offset by revenue from WRD under the operating agreement. Costs associated with pumping and treatment of groundwater also increased due to increased groundwater pumping compared to the prior year, and increases in electricity rates, chemical costs and WRD's replenishment assessment rate.
- Franchise and permit fees increased \$523 (+12.9%) due to completion of a three year phase-in of a City imposed pipeline permit fee assessed on potable water main lines throughout the City. The permit fee is based on pipe diameter and lineal footage, and became effective October 1, 2003, in conjunction with the elimination of City franchise fees imposed on the Department. The FY 2006 increase was partially offset by elimination of a City assessed in-lieu property tax.
- Purchased water costs decreased \$1,757 (-8.4%) from the previous year, reflecting the shifting of potable water supply resources from purchased MWD treated potable water to groundwater pumping.
- Other operating expenses, which decreased \$476 (-20.9%), are primarily for utility commercial services. The City provides billing and collection of water and sewer service and utility customer support. The decrease reflects both cost reductions and a more equitable allocation of costs between the water and sewer funds.

Fiscal Year Ended September 30, 2005 compared to 2004

FY 2005 operating expenses totaled \$58,320, an increase of \$2,716 (+4.9%) over FY 2004. Purchased water costs increased \$2,355 (+12.7%) over the previous year, reflecting the shifting of potable water supply resources from groundwater pumping to purchased MWD treated potable water to take advantage of available MWD seasonal shift incentives and in-lieu groundwater storage programs. Labor costs increased \$1,159 (+10%) over FY 2004, reflecting the requirement of City contributions to its CalPERS retirement plans effective October 1, 2004, following several years in which no contributions were required as the City's retirement plans were overfunded. Franchise and permit fees increased \$872 (+27.5%) due to the second year phase-in of the City imposed pipeline permit fee.

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Management's Discussion and Analysis September 30, 2006 and 2005

Sewer Enterprise Fund

Fiscal Year Ended September 30, 2006 compared to 2005

FY 2006 operating expenses totaled \$7,737, an increase of \$669 (+9.5%) over FY 2005. Maintenance and other costs increased \$232 (+10.4%) including increases in contractual services, machinery and equipment repair for storm drain maintenance, departmental overhead, and interdepartment charges for services. Commercial services increased \$324 (+31.7%). The City provides billing and collection of water and sewer service and utility customer support. The increase reflects a more equitable allocation of costs between the water and sewer funds.

Fiscal Year Ended September 30, 2005 compared to 2004

FY 2005 operating expenses totaled \$7,068, a decrease of \$698 (-9.0%) from FY 2004. Labor costs were down 9.1% from FY 2004 reflecting unfilled vacancies. Maintenance and other costs were down 16.2% overall, including reductions in overhead and storm drain maintenance costs.

Capital Assets and Debt Administration

Capital assets. The Department's capital assets (net of accumulated depreciation) as of September 30, 2006 amounted to \$248,474 for the Water Fund and \$42,619 for the Sewer Fund. Capital assets include investments in production, transmission, and distribution related to facilities, as well as general items such as office equipment and furniture. For the 2006 fiscal year, Water Fund net capital assets increased 3% due to ongoing improvements in the Department's transmission, distribution and storage capabilities, including projects for reclaimed water system expansion, conjunctive use wells, and seawater desalination. Sewer Fund net capital assets increased 3% over FY 2004 due primarily to ongoing sewer main replacement and improvement programs.

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Management's Discussion and Analysis September 30, 2006 and 2005

The Department's Capital Assets are summarized as follows for the years ended September 30, 2006, 2005, and 2004 (in thousands):

Long Beach Water Department Capital Assets September 30, 2006, 2005 and 2004 (in thousands)							
	2006	2005	2004	Variance			
				2006/2005		2005/2004	
				Amount	%	Amount	%
Land	\$ 11,280	\$ 11,280	\$ 11,280	\$ -	0%	\$ -	0%
Buildings, structures, and facilities	107,876	99,551	96,962	8,325	8%	2,589	3%
Distribution, collection systems	390,906	385,581	378,151	5,325	1%	7,430	2%
Machinery and equipment	15,296	14,947	14,607	349	2%	340	2%
Construction in progress	25,175	23,308	13,108	1,867	8%	10,200	78%
Total capital assets	550,533	534,667	514,108	15,866	3%	20,559	4%
Less: accumulated depreciation	(259,440)	(251,246)	(242,173)	(8,194)	3%	(9,073)	4%
Net capital assets	<u>\$ 291,093</u>	<u>\$ 283,421</u>	<u>\$ 271,935</u>	<u>\$ 7,672</u>	<u>3%</u>	<u>\$ 11,486</u>	<u>4%</u>

The Department's Capital Assets are further broken down as follows between the Department's Water Enterprise Fund and the Sewer Enterprise Fund for the years ended September 30, 2006, 2005, and 2004:

Capital Assets September 30, 2006, 2005 and 2004 (in thousands)							
	2006	2005	2004	Variance			
				2006/2005		2005/2004	
				Amount	%	Amount	%
Water Enterprise Fund							
Land	\$ 11,280	\$ 11,280	\$ 11,280	\$ -	0%	\$ -	0%
Buildings, structures, and facilities	102,195	93,870	91,281	8,325	9%	2,589	3%
Distribution, collection systems	222,209	217,758	211,473	4,451	2%	6,285	3%
Machinery and equipment	11,724	11,397	11,097	327	3%	300	3%
Construction in progress	21,550	21,339	11,722	211	1%	9,617	82%
Total capital assets	368,958	355,644	336,853	13,315	4%	18,791	6%
Less: accumulated depreciation	(120,484)	(113,429)	(105,518)	(7,055)	6%	(7,911)	7%
Net capital assets	<u>\$ 248,474</u>	<u>\$ 242,215</u>	<u>\$ 231,335</u>	<u>\$ 6,260</u>	<u>3%</u>	<u>\$ 10,880</u>	<u>5%</u>
Sewer Enterprise Fund							
Buildings, structures, and facilities	\$ 5,681	\$ 5,681	\$ 5,681	\$ -	0%	-	0%
Distribution, collection systems	168,698	167,823	166,678	875	1%	1,145	1%
Machinery and equipment	3,572	3,550	3,510	22	1%	40	1%
Construction in progress	3,624	1,969	1,386	1,655	84%	583	42%
Total capital assets	181,575	179,023	177,255	2,552	1%	1,768	1%
Less: accumulated depreciation	(138,956)	(137,817)	(136,655)	(1,139)	1%	(1,162)	1%
Net capital assets	<u>\$ 42,619</u>	<u>\$ 41,206</u>	<u>\$ 40,600</u>	<u>\$ 1,413</u>	<u>3%</u>	<u>\$ 606</u>	<u>1%</u>

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Additional information regarding capital assets can be found in notes 1 and 3 to the Department's basic financial statements.

Long-term debt. The Water Enterprise Fund had total long-term debt outstanding of \$37,779 as of September 30, 2006 and \$38,898 outstanding as of September 30, 2005. The debt is backed by Water Enterprise Fund revenues. The Water Department's outstanding debt as of September 30, 2006, 2005 and 2004 is summarized as follows:

Long Beach Water Department Summary of Long-Term Debt September 30, 2006, 2005 and 2004 (in thousands)							
	2006	2005	2004	Variance			
				2006/2005		2005/2004	
				Amount	%	Amount	%
Revenue refunding bonds	\$ 34,675	\$ 35,830	\$ 36,940	(1,155)	-3.2%	(1,110)	-3.0%
State loan	230	368	500	(138)	-37.4%	(132)	-26.4%
Commercial paper notes	6,000	6,000	6,000	-	0.0%	-	0.0%
Long term debt outstanding	40,905	42,198	43,440	(1,293)	-3.1%	(1,242)	-2.9%
Less:							
Unamortized bond discount	(239)	(253)	(266)	14	-5.4%	13	-4.9%
Unamortized loss on refunding	(2,887)	(3,047)	(3,207)	160	-5.3%	160	-5.0%
Total long term debt	<u>\$ 37,779</u>	<u>\$ 38,898</u>	<u>\$ 39,967</u>	<u>(1,119)</u>	<u>-2.9%</u>	<u>(1,069)</u>	<u>-2.7%</u>

The Water Department maintains an AA credit rating from Standard & Poors. Additional information on the Department's long-term debt can be found in note 4 of this report.

Economic Factors and Next Year's Budget and Rates

The Board of Water Commissioners approved the budget for the fiscal year end September 30, 2007, with budgeted expenditures totaling approximately \$81.97 million and \$14.12 million for the water fund and sewer fund, respectively. Budgeted expenditures include capital improvement program expenditures and water fund debt service. The Board also approved water and sewer rate increases effective November 1, 2007, which combined equate to a 4.7% increase in the average household monthly bill. The increases were necessary to cover escalating core costs of providing service, including imported water, groundwater water treatment chemicals, electrical power, replenishment assessments (pump tax), construction costs, and the imposition of the City pipeline permit fee on the sewer system.

LONG BEACH WATER DEPARTMENT

Management's Discussion and Analysis
September 30, 2006 and 2005

Requests for Information

This financial report is designed to provide a general overview of the Water Department's finances. Questions concerning any information provided in this report or requests for additional financial information should be addressed to the Director of Finance, Long Beach Water Department, 1800 E. Wardlow Road, Long Beach, California 90807.

LONG BEACH WATER DEPARTMENT

Statements of Net Assets September 30, 2006 and 2005

ASSETS

	2006			2005		
	Water Fund	Sewer Fund	Total	Water Fund	Sewer Fund	Total
Current Assets:						
Pooled cash and cash equivalents	\$ 8,519,087	10,124,858	18,643,945	\$ 6,889,775	9,274,377	16,164,152
Non-pooled investments	603,467	-	603,467	603,468	-	603,468
Customer accounts receivable	5,319,306	433,561	5,752,867	6,976,914	416,515	7,393,429
Allowance for doubtful accounts	(214,172)	(27,079)	(241,251)	(205,755)	(26,658)	(232,413)
Due from other funds	70,277	-	70,277	-	-	-
Material and supplies inventory	1,973,757	66,587	2,040,344	1,909,131	71,480	1,980,611
Restricted Assets:						
Pooled cash and cash equivalents:						
Funds held in trust	707,710	-	707,710	768,608	-	768,608
1997 bond service fund	1,359,085	-	1,359,085	1,320,732	-	1,320,732
Sub-total pooled cash and cash equivalents	2,066,795	-	2,066,795	2,089,340	-	2,089,340
Non-pooled investments	2,995,583	-	2,995,583	2,995,583	-	2,995,583
Total restricted assets	5,062,378	-	5,062,378	5,084,923	-	5,084,923
Total current assets	21,334,100	10,597,927	31,932,027	21,258,456	9,735,714	30,994,170
Capital assets:						
Land	11,279,519	-	11,279,519	11,279,519	-	11,279,519
Buildings, structures and facilities	102,195,452	5,681,145	107,876,597	93,869,863	5,681,145	99,551,008
Distribution/collection systems	222,208,902	168,697,727	390,906,629	217,758,536	167,823,534	385,582,070
Machinery and equipment	11,723,926	3,571,952	15,295,878	11,396,571	3,549,593	14,946,164
Construction in progress	21,550,312	3,624,896	25,175,208	21,339,569	1,968,665	23,308,234
Total capital assets	368,958,111	181,575,720	550,533,831	355,644,058	179,022,937	534,666,995
Less: Accumulated depreciation	(120,484,088)	(138,956,305)	(259,440,393)	(113,429,351)	(137,816,702)	(251,246,053)
Net capital assets	248,474,023	42,619,415	291,093,438	242,214,707	41,206,235	283,420,942
Deferred Charges, Net of Amortization	853,241	-	853,241	949,612	-	949,612
Prepaid Expense	1,497,054	-	1,497,054	1,497,054	-	1,497,054
Total noncurrent assets	250,824,318	42,619,415	293,443,733	244,661,373	41,206,235	285,867,608
Total Assets	\$ 272,158,418	53,217,342	325,375,760	\$ 265,919,829	50,941,949	316,861,778

LIABILITIES

Current Liabilities:						
Accounts payable	\$ 6,535,236	790,365	7,325,601	\$ 6,144,466	406,801	6,551,267
Accrued wages payable	567,058	147,346	714,404	539,631	119,143	658,774
Advances from developers	234,330	32,257	266,587	269,495	31,329	300,824
Amounts Payable from Restricted Assets:						
Accrued interest payable	784,599	-	784,599	788,622	-	788,622
Long-term debt due within one year	1,353,038	-	1,353,038	1,292,519	-	1,292,519
Customer deposits	707,196	-	707,196	764,173	-	764,173
Total amounts payable from restricted assets	2,844,833	-	2,844,833	2,845,314	-	2,845,314
Total current liabilities	10,181,457	969,968	11,151,425	9,798,906	557,273	10,356,179
Long-Term Liabilities:						
Long-term debt, net of current portion	36,426,088	-	36,426,088	37,605,879	-	37,605,879
Total Liabilities	46,607,545	969,968	47,577,513	47,404,785	557,273	47,962,058
NET ASSETS						
Invested in capital assets, net of related debt	210,282,289	42,619,415	252,901,704	202,958,548	41,206,235	244,164,783
Restricted net assets for:						
Bond Service	1,359,085	-	1,359,085	1,320,732	-	1,320,732
Bond Reserve	2,995,583	-	2,995,583	2,995,583	-	2,995,583
Unrestricted net assets	10,913,916	9,627,959	20,541,875	11,240,181	9,178,441	20,418,622
Total Net Assets	225,550,873	52,247,374	277,798,247	218,515,044	50,384,676	268,899,720
Total Liabilities and Net Assets	\$ 272,158,418	53,217,342	325,375,760	\$ 265,919,829	50,941,949	316,861,778

See accompanying notes to basic financial statements

LONG BEACH WATER DEPARTMENT

Statements of Revenues, Expenses, and Changes in Fund Net Assets Years Ended September 30, 2006 and 2005

	2006			2005		
	Water Fund	Sewer Fund	Total	Water Fund	Sewer Fund	Total
Operating Revenues:						
Metered water sales	\$ 46,876,962	3,053,781	49,930,743	\$ 45,965,699	3,124,161	49,089,860
Reclaimed water sales	1,600,092	-	1,600,092	1,387,679	-	1,387,679
Service charges	12,727,030	4,589,962	17,316,992	12,302,245	4,628,062	16,930,307
Maintenance services	-	780,192	780,192	-	731,618	731,618
Other services	4,869,663	820,543	5,690,206	4,866,148	1,233,738	6,099,886
Total operating revenues	66,073,747	9,244,478	75,318,225	64,521,771	9,717,579	74,239,350
Operating Expenses:						
Cost of water	19,179,233	-	19,179,233	20,935,779	-	20,935,779
Personal services	12,973,923	2,688,832	15,662,755	12,730,638	2,648,161	15,378,799
Commercial services	1,748,996	1,339,481	3,088,477	2,215,610	1,012,629	3,228,239
Maintenance and other	14,576,183	2,467,783	17,043,966	10,159,100	2,235,861	12,394,961
Franchise and permit fees	4,570,053	-	4,570,053	4,047,146	-	4,047,146
Provision for doubtful accounts	47,919	7,715	55,634	57,481	9,525	67,006
Depreciation	7,884,939	1,232,958	9,117,897	8,174,499	1,161,288	9,335,787
Total operating expenses	60,981,246	7,736,769	68,718,015	58,320,253	7,067,464	65,387,717
Operating income	5,092,501	1,507,709	6,600,210	6,201,518	2,650,115	8,851,633
Non-operating Income (Expense):						
Interest income	653,275	365,915	1,019,190	555,849	213,276	769,125
Interest expense	(2,255,178)	-	(2,255,178)	(2,253,081)	-	(2,253,081)
Loss on disposition of property	(212,905)	(11,506)	(224,411)	(136,523)	-	(136,523)
Rental income	733,117	-	733,117	804,264	-	804,264
Other	391,123	580	391,703	487,600	11,614	499,214
Total non-operating income (expense)	(690,568)	354,989	(335,579)	(541,891)	224,890	(317,001)
Income before contributed capital and transfers out	4,401,933	1,862,698	6,264,631	5,659,627	2,875,005	8,534,632
Contributed capital	2,633,896	-	2,633,896	6,288,701	585,134	6,873,835
Changes in net assets	7,035,829	1,862,698	8,898,527	11,948,328	3,460,139	15,408,467
Net assets at beginning of year	218,515,044	50,384,676	268,899,720	206,566,716	46,924,537	253,491,253
Net assets at end of year	\$ 225,550,873	52,247,374	277,798,247	\$ 218,515,044	50,384,676	268,899,720

See accompanying notes to basic financial statements

LONG BEACH WATER DEPARTMENT

Statements of Cash Flows Years Ended September 30, 2006 and 2005

	2006			2005		
	Water Fund	Sewer Fund	Total	Water Fund	Sewer Fund	Total
Cash flows from operating activities:						
Cash received from customers	\$ 67,382,340	9,227,853	76,610,193	\$ 63,149,137	9,756,969	72,906,106
Cash paid to employees	(12,946,496)	(2,660,629)	(15,607,125)	(12,686,186)	(2,659,451)	(15,345,637)
Cash paid for water	(19,491,945)	-	(19,491,945)	(20,771,744)	-	(20,771,744)
Cash paid for goods and services	(14,798,997)	(3,276,136)	(18,075,133)	(13,993,489)	(3,556,912)	(17,550,401)
Cash paid for franchise and permit fees	(4,570,053)	-	(4,570,053)	(4,047,146)	-	(4,047,146)
Other operating cash received	1,141,081	-	1,141,081	1,259,881	-	1,259,881
Net cash provided by operating activities	16,715,930	3,291,088	20,007,018	12,910,453	3,540,606	16,451,059
Cash flows from capital and related financing activities:						
Proceeds from sale of capital assets	64,275	-	64,275	23,244	-	23,244
Contributions in aid of construction	2,670,977	-	2,670,977	5,349,098	-	5,349,098
Payments for capital acquisitions	(15,178,088)	(2,806,522)	(17,984,610)	(19,020,239)	(1,290,827)	(20,311,066)
Principal repayments-bonds	(1,155,000)	-	(1,155,000)	(1,110,000)	-	(1,110,000)
Principal repayments-loans/notes	(137,519)	-	(137,519)	(132,214)	-	(132,214)
Interest payments	(2,027,083)	-	(2,027,083)	(2,033,460)	-	(2,033,460)
Net cash used for capital and related financing activities	(15,762,438)	(2,806,522)	(18,568,960)	(16,923,571)	(1,290,827)	(18,214,398)
Cash flows from investing activities:						
Interest income received	653,275	365,915	1,019,190	555,849	213,276	769,125
Net cash provided by investing activities	653,275	365,915	1,019,190	555,849	213,276	769,125
Net increase (decrease) in cash and cash equivalents	1,606,767	850,481	2,457,248	(3,457,269)	2,463,055	(994,214)
Cash and cash equivalents, October 1	8,979,115	9,274,377	18,253,492	12,436,384	6,811,322	19,247,706
Cash and cash equivalents, September 30	\$ 10,585,882	10,124,858	20,710,740	\$ 8,979,115	9,274,377	18,253,492
Reconciliation of operating income to net cash provided by operating activities:						
Operating income	\$ 5,092,501	1,507,709	6,600,210	\$ 6,201,518	2,650,115	8,851,633
Adjustments to reconcile operating income to net cash provided by operating activities:						
Depreciation expense	7,884,939	1,232,958	9,117,897	8,174,499	1,161,288	9,335,787
Provision for doubtful accounts	47,919	7,715	55,634	57,481	9,525	67,006
Amortized expense	37,500	-	37,500	37,500	-	37,500
Interdepartmental transfers	849,826	142,671	992,497	767,685	138,208	905,893
Property rental and other income	1,141,081	-	1,141,081	1,259,881	-	1,259,881
Increase in customer accounts receivable	1,365,570	(16,625)	1,348,945	(1,384,573)	39,390	(1,345,183)
Increase in prepaid expense	-	-	-	(1,497,054)	-	(1,497,054)
Decrease (increase) in material and supplies inventory	(64,626)	4,893	(59,733)	6,480	(9,378)	(2,898)
Increase (decrease) in accounts and retainage payable	390,770	383,564	774,334	(769,355)	(437,252)	(1,206,607)
Increase in accrued wages payable	27,427	28,203	55,630	44,452	(11,290)	33,162
Increase (decrease) in customer deposits	(56,977)	-	(56,977)	11,939	-	11,939
Total adjustments	11,623,429	1,783,379	13,406,808	6,708,935	890,491	7,599,426
Net cash provided by operating activities	\$ 16,715,930	3,291,088	20,007,018	\$ 12,910,453	3,540,606	16,451,059

See accompanying notes to basic financial statements

LONG BEACH WATER DEPARTMENT

Notes to Basic Financial Statements
September 30, 2006 and 2005

Note 1 - Description of the Department and Summary of Significant Accounting Policies

Description of the Department

The Long Beach Water Department (the Department) was established in 1911 through adoption of the City Charter of the City of Long Beach (the City) to regulate and control the use, sale and distribution of water owned or controlled by the City. In February 1988, the City Council of the City of Long Beach voted to transfer administrative, operational and maintenance responsibility of the City's sewer system to the Department. In addition, in April 1990, the Citizens of Long Beach passed a City Charter amendment that allowed greater autonomy of the Department in administering sewer operations. For accounting purposes, the transfer was effective July 1, 1988. Recorded physical plant infrastructure assets with a book value of \$32,838,624, net of accumulated depreciation of \$96,231,701, were transferred from the City to the Sewer Enterprise Fund with a corresponding addition to contributed capital. The Department utilizes water and sewer accounts to track and record its operations.

The Department services the City's sewer system which consists of 712 miles of sewer mains, 16,044 manholes and 28 sewage pumping stations. This system is capable of transporting for treatment approximately 40 million gallons of raw sewage daily.

The Department obtains potable water for distribution from two sources. Historically, approximately half of the City's water is purchased from the Metropolitan Water District of Southern California; the other half is pumped from the Department's own groundwater wells. Water is stored in two reservoirs with a combined capacity of 117 million gallons. The Department also delivered over 1,383 million gallons of reclaimed water to various users in the City.

Reporting Entity

The Department's financial activities are considered to be enterprise operations of the City of Long Beach; accordingly, such activities are included in the City's Comprehensive Annual Financial Report. Control and management of the Department is vested in the five member Board of Water Commissioners. Each Commissioner is appointed by the Mayor, confirmed by the City Council, and may serve two five-year terms.

The accompanying Water Department financial statements include the Water and Sewer Fund operations of the City of Long Beach. The statements of the Long Beach Water Department of the City of Long Beach, California, are intended to present the financial position, and changes in financial position and cash flows of only that portion of the business-type activities of the City that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the City of Long Beach, California, as of September 30, 2006 and 2005, and the changes in its financial position and, where applicable, its cash flows thereof, for the years then ended in conformity with U.S. generally accepted accounting principles.

LONG BEACH WATER DEPARTMENT

Notes to Basic Financial Statements
September 30, 2006 and 2005

The City's Comprehensive Annual Financial Report may be obtained by contacting:

City of Long Beach, California – Department of Financial Management
333 W. Ocean Blvd.
Long Beach, CA 90802

Basis of Accounting

The Department's accounts are maintained on a flow of economic resources measurement focus utilizing the accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned, regardless of when they are received, and expenses are recognized in the period incurred. The Department's operations are not subject to regulation by the Public Utilities Commission.

The Department applies all Government Accounting Standard Board (GASB) Statements and Interpretations. Additionally, as permitted by U.S. generally accepted accounting principles, the City has elected to apply those Financial Accounting Standards Board (FASB) Statements and Interpretations issued before November 30, 1989 that may apply to the City's unique accounting and reporting practices for its proprietary and nonexpendable operations, except those that conflict with a GASB pronouncement.

Implementation of New Governmental Accounting Standards Board Statement

In May 2004, the GASB issued Statement No. 44 *Economic Condition Reporting: The Statistical Section - an amendment of NCGA Statement 1*. This statement amends the portions of NCGA Statement 1, *Governmental Accounting and Financial Reporting Principles* that guide the preparation of the statistical section. The statistical section presents detailed information, typically in ten-year trends, that assists users in utilizing the basic financial statements, notes to basic financial statements, and required supplementary information to assess the economic condition of a government. The Department has implemented a new Statistical Section in this year's CAFR.

Pooled Cash, Cash Equivalents and Other Investments

In order to maximize investment return and in accordance with City Charter requirements, the Department pools its available cash with other City funds. The City's cash management pool is used as a demand deposit account by participating units. Investment decisions are made by the City Treasurer and approved by a general investment committee whose membership includes a member of the Department's management.

The Department has defined cash and cash equivalents as pooled cash and investments, including restricted pooled cash and cash equivalents.

LONG BEACH WATER DEPARTMENT

Notes to Basic Financial Statements September 30, 2006 and 2005

Interest income and realized and unrealized gains and losses arising from such pooled cash and investments are apportioned to each participating unit based on their average daily cash balances compared to aggregate pooled cash and investments. The Department's share of pooled cash and investments is stated at fair value (See note 2).

Material and Supplies Inventory

Material and supplies inventory is stated at the lower of average cost or market, determined on a first-in, first-out basis.

Capital Assets

Capital assets, which include property, plant, equipment, and transmission and distribution infrastructure, are composed of assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. The cost of additions to capital assets and replacement of retired property is capitalized. Significant interest costs incurred during construction of assets are also capitalized. The costs of minor replacement expenditures are expensed as incurred. Upon retirement or sale of capital assets, the cost and related accumulated depreciation are removed from the accounts, with any resulting gain or loss recorded in the Department's operations (see Note 3).

Depreciation of capital assets is provided by the straight-line method based on the estimated service lives of the properties, as follows:

Buildings, structures and improvements	10 to 50 years
Transmission and distribution infrastructure	20 to 75 years
Other machinery and equipment	5 to 10 years

Capital Contributions

Advances received for construction of plant assets are recorded as deferred revenue when received. As construction progresses, advanced amounts equivalent to capitalized expenditures are recorded as capital contributions and included as other non-operating revenue. Assets constructed by developers and contributed to the Department are capitalized at fair market value.

In accordance with GASB Statement 33, "Accounting and Financial Reporting for Non-Exchange Transactions", the Department includes capital contributions for construction of plant assets as a non-operating revenue in the accompanying statements of revenues, expenses and changes in fund net assets.

LONG BEACH WATER DEPARTMENT

Notes to Basic Financial Statements

September 30, 2006 and 2005

Revenue Recognition

Operating revenues include revenues derived from the sale of water, from providing sewer service, and from other activities closely related to providing water and sewer service. Principal revenues are derived from volumetric usage and service charges for water and sewer services. Nonoperating revenues and expenses are those not directly associated with the Department's normal business operations of supplying water and sewer service and include interest income and expense, rents received for Department property, and gains and losses on disposition of property. Revenues for water and sewer charges are recorded when billed to customers; billings are based on monthly meter readings.

Operating Expenses

The cost of water includes all purchases of water from the Metropolitan Water District of Southern California. Personal services include labor costs for operations, maintenance, and general and administrative functions. Commercial services cost is the Department's share of the City's utility billing system. Maintenance and other costs include the operating costs of the Department and include costs of pumping and treating groundwater as well as general and administrative costs. In-lieu taxes and permit fees are transfers made to the City.

Employee Benefits

Full-time Department employees are entitled to receive up to 96 hours of sick leave per year. Unused sick leave benefits are vested; however, under the provisions of the City's Personnel Ordinance, upon retirement, the City allows retirees, their spouses and eligible dependents to use the cash value of the retiring employee's accumulated sick leave to pay for health and dental insurance premiums under the City's Retired Employees Health Insurance Program. Once the cash value of the retired employee's unused sick leave is exhausted, the retiree is required to pay all health and dental premiums. Expenses are recognized by the Department through regular payroll burden charges from the City's Employee Benefits Fund (an internal services fund type) based on estimates of benefits earned for vacation pay and sick leave.

Pension Plan

All full-time Department employees are members of the State of California Public Employees' Retirement System (CalPERS). The Department's policy is to fund all CalPERS pension costs accrued. The costs to be funded are determined annually as of October 1 by CalPERS, and are incorporated into the payroll burden rate to reimburse the Employee Benefits Internal Service Fund for CalPERS contributions made on behalf of Department employees (see Note 5).

LONG BEACH WATER DEPARTMENT

Notes to Basic Financial Statements

September 30, 2006 and 2005

Restricted Assets

Amounts restricted for bond indenture requirements and funds held in trust are recorded as restricted assets. Related liabilities of these funds are identified as amounts payable from restricted assets when such obligations are incurred.

Risk Management

The Department, as an entity of the City, participates in the City's self-insured program for workers' compensation, property and tort liability. The City and the Department's management believe that sufficient funds are being accumulated in the City's Insurance Internal Service Fund to meet losses as they arise. The Department contributes to the Insurance Internal Fund through payroll burden charges applied as a percent of current productive salaries. In addition, various risk control techniques, including safety training for all employees, regular property appraisals, and the inclusion of appropriate legal provisions in third party contracts, have been implemented to minimize risk losses.

Note 2 - Pooled Cash, Cash Equivalents and Other Investments

The City, and by consequence, the Department, has adopted the provisions of GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," which requires that certain investments and external investment pools be reported at fair value.

Substantially all of the Department's cash, including restricted cash, is deposited with the City Treasurer under the City Treasurer's pooled cash and investment program. Individual pool participants' cash and investments are not specifically identifiable. Interest income earned on pooled cash and investments is allocated monthly to pool participants based on their average daily cash balances. The Department is required by the City Charter to participate in the City Treasurer's cash and investment pool. The City's investment policy, in compliance with the California Government Code, authorizes the City Treasurer to invest pooled cash in obligations issued or guaranteed by the Federal Government and its agencies and instrumentalities, high quality commercial paper and medium term corporate notes rated by Standard and Poor's Corporation or Moody's Commercial Paper Record, bankers' acceptances, repurchase agreements, reverse repurchase agreements, bank certificates of deposit, the State Treasurer's Local Agency Investment Fund and shares of beneficial interest (mutual funds) issued by diversified investment management companies.

LONG BEACH WATER DEPARTMENT

Notes to Basic Financial Statements
September 30, 2006 and 2005

The Department's cash and investments consist of the following:

<u>Water Fund</u>	2006	2005
Equity in the City of Long Beach's Investment Pool	\$ 10,585,882	\$ 8,979,115
Gauranteed Investment Contract	3,599,050	3,599,051
Total cash and investments	<u>\$ 14,184,932</u>	<u>\$ 12,578,166</u>

<u>Sewer Fund</u>	2006	2005
Equity in the City of Long Beach's Investment Pool	<u>\$ 10,124,858</u>	<u>\$ 9,274,377</u>

A portion of the Department's cash and investments are restricted to use either by bond indenture requirements or actions of the Board. The Department's unrestricted and restricted cash and investments are as follows:

<u>Water Fund</u>	2006	2005
Unrestricted cash and investments	<u>\$ 9,122,554</u>	<u>\$ 7,493,243</u>
Restricted cash and investments		
Water Trust Fund	707,710	768,608
Bond Service Fund	1,359,085	1,320,732
Bond Reserve	<u>2,995,583</u>	<u>2,995,583</u>
Total restricted cash and investments	<u>5,062,378</u>	<u>5,084,923</u>
Total cash and investments	<u>\$ 14,184,932</u>	<u>\$ 12,578,166</u>

<u>Sewer Fund</u>	2006	2005
Unrestricted cash and investments	<u>\$ 10,124,858</u>	<u>\$ 9,274,377</u>

Investments Authorized by the California Government Code and the City's Investment Policy

The following table identifies the investment types that are authorized for the City by the City's investment policy. The table also identifies certain provisions of the city's investment policy that address interest rate risk, credit risk, and concentration of credit risk. This table does not address debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the City, rather than the general provision of the California Government Code or the City's investment policy.

LONG BEACH WATER DEPARTMENT

Notes to Basic Financial Statements September 30, 2006 and 2005

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Bonds issued by the City	5 years *	30%	None
U.S. Treasury notes, bonds, or bills	5 years *	None	None
Registered state warrants or treasury notes or bonds of the State of California	5 years *	30%	None
Local Agency Bonds	5 years *	30%	None
Federal agency securities	5 years *	None	None
Bankers Acceptances	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years *	30%	10%
Time Certificates of Deposit	5 years *	100%	10%
Repurchase Agreements	90 days	100%	None
Reverse Repurchase Agreements	92 days	20%	None
Securities Lending Program	92 days	20%	None
Medium-Term Notes	5 years *	30%	10%
Money Market Funds	N/A	20%	10%
Local Agency Investment Fund (LAIF)	N/A	None	\$40 million per account
Asset-backed Securities	5 years	20%	None
Mortgage-backed Securities	5 years	20%	None

* Maximum maturity of five (5) years unless a longer maturity is approved by the City Council, either specifically or as part of an investment program, at least three (3) months prior to purchase.

Investments Authorized by Debt Agreements

Investment of debt proceeds held by bond trustee are governed by provisions of the debt agreements.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates that will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments, and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming closer to maturity evenly over time as necessary to provide cash flow and liquidity needed for operations.

The City had no investments with values that were highly sensitive to market interest rate changes as of September 30, 2006 and 2005.

LONG BEACH WATER DEPARTMENT

Notes to Basic Financial Statements September 30, 2006 and 2005

The following schedules indicate the interest rate risk of the City's investments as of September 30, 2006 and 2005 (in thousands):

Interest rate risk as of September 30, 2006

<u>Investment Type</u>		<u>Weighted Average Maturity (in years)</u>
Inter-Department Loan (Health Savrs)	\$ 3,297	12.600
U.S. Treasury Notes	214,467	1.542
Federal agency securities	1,042,876	1.572
Medium-Term Notes	33,464	1.609
Short-term Commercial Paper	132,731	0.013
Local Agency Investment Fund (LAIF)	2,920	0.003
Subtotal City Pool	<u>1,429,755</u>	
Cash on Hand	26,811	
Outstanding Checks	<u>(18,044)</u>	
Total City Pool	<u>\$ 1,438,522</u>	

Interest rate risk as of September 30, 2005

<u>Investment Type</u>		<u>Weighted Average Maturity (in years)</u>
Bonds issued by the City	\$ 3,502	13.57
U.S. Treasury Notes	275,731	1.99
U.S. Treasury Bonds	10,513	0.03
Federal agency securities	858,461	1.31
Medium-Term Notes	95,404	0.84
Money Market Funds	34	-
Local Agency Investment Fund (LAIF)	94,981	0.46
Subtotal City Pool	<u>1,338,626</u>	
Cash on Hand	11,499	
Outstanding Checks	<u>(19,908)</u>	
Total City Pool	<u>\$ 1,330,217</u>	

At September 30, 2006, the Water Fund and Sewer Fund have equity in the City's pool of \$10,585,882 and \$10,124,858, respectively, which represents approximately 0.74% and 0.70%, respectively, for a total departmental equity of \$20,710,740 or 1.44%.

At September 30, 2005, the Water Fund and Sewer Fund have equity in the City's pool of \$8,979,115 and \$9,274,377, respectively, which represents approximately 0.67% and 0.70%, respectively, for a total departmental equity of \$18,253,492 or 1.37%.

At September 30, 2006 and 2005, the Department's only non-pooled investment is a guaranteed investment contract (GIC) of \$3,599,050 in the Water Fund, established pursuant to the 1997 bond reserve requirements, with a maturity date of May 1, 2024.

LONG BEACH WATER DEPARTMENT

Notes to Basic Financial Statements September 30, 2006 and 2005

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the California Government Code, the City's investment policy, and the actual rating as of years ended September 30, 2006 and 2005 for each investment type (in thousands):

Rating as of Year End September 30, 2006								
Investment Type		Minimum	Not Required	A-1+	A-1	AAA	AA-	Unrated
		Legal Rating	To Be Rated					
Inter-Department Loan (Health Savrs)	\$ 3,297	N/A	\$ 3,297	\$ -	\$ -	\$ -	\$ -	\$ -
U.S. Treasury Notes	214,467	N/A	214,467	-	-	-	-	-
Federal agency securities	1,042,876	N/A	-	-	-	1,042,876	-	-
Medium-Term Notes	33,464	A	-	-	-	28,445	5,019	-
Short-term Commercial Paper	132,731	N/A	-	75,773	56,958	-	-	-
Local Agency Investment Fund (LAIF)	2,920	N/A	2,920	-	-	-	-	-
Subtotal City Pool	1,429,755		220,684	75,773	56,958	1,071,321	5,019	-
Cash on Hand	26,811		-	-	-	-	-	26,811
Outstanding Checks	(18,044)		-	-	-	-	-	(18,044)
Total City Pool	<u>\$ 1,438,522</u>		<u>\$ 220,684</u>	<u>\$75,773</u>	<u>\$56,958</u>	<u>\$ 1,071,321</u>	<u>\$5,019</u>	<u>8,767</u>

Rating as of Year Ended September 30, 2005							
Investment Type		Minimum	Not Required To	AAA	Aa	A	Unrated
		Legal Rating	Be Rated				
Bonds issued by the City	\$ 3,502	N/A	\$ 3,502	\$ -	\$ -	\$ -	\$ -
U.S. Treasury Notes	275,731	N/A	275,731	-	-	-	-
U.S. Treasury Bonds	10,513	N/A	10,513	-	-	-	-
Federal agency securities	858,461	N/A	-	858,461	-	-	-
Medium-Term Notes	95,404	A	-	71,783	5,018	18,603	-
Money Market Funds	34	N/A	34	-	-	-	-
Local Agency Investment Fund (LAIF)	94,981	N/A	-	-	-	-	94,981
Subtotal City Pool	1,338,626		289,780	930,244	5,018	18,603	94,981
Cash on Hand	11,499		-	-	-	-	11,499
Outstanding Checks	(19,908)		-	-	-	-	(19,908)
Total City Pool	<u>\$1,330,217</u>		<u>\$ 289,780</u>	<u>\$930,244</u>	<u>\$5,018</u>	<u>\$18,603</u>	<u>\$ 86,572</u>

The following schedules indicate the credit risk of the Water Department's non-pooled investments as of September 30, 2006 and 2005 (in thousands):

Rating as of Year End September 30, 2006							
Investment Type		Minimum	Not Required	A-1+	A-1	AAA	AA-
		Legal Rating	To Be Rated				
Guaranteed Investment Contracts	<u>\$ 3,599</u>	N/A	<u>\$ 3,599</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Rating as of Year Ended September 30, 2005							
Investment Type		Minimum	Not Required To	AAA	Aa	A	Unrated
		Legal Rating	Be Rated				
Guaranteed Investment Contracts	<u>\$ 3,599</u>	N/A	<u>\$ 3,599</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

LONG BEACH WATER DEPARTMENT

Notes to Basic Financial Statements September 30, 2006 and 2005

Concentration of Credit Risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer that represent 5% or more on total City's pooled investments are as follows (in thousands):

Concentration of Credit Risk as of September 30, 2006

<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>
FFCB	Federal Agency Securities	\$ 181,052
FHLB	Federal Agency Securities	241,246
FHLMC	Federal Agency Securities	266,937
FNMA	Federal Agency Securities	353,641
U.S. Treasuries	U.S. Treasury Notes & bonds	214,467
Commercial Paper	Unsecured Corporate debt	132,731

Concentration of Credit Risk as of September 30, 2005

<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>
FNMA	Federal Agency securities	\$ 237,814
Federal Farm Credit Agency	Federal Agency securities	194,999
FHLB	Federal Agency securities	204,151
FHLMC	Federal Agency securities	216,462
Local Agency Investment Fund (LAIF)	Local Agency Investment Fund (LAIF)	94,914

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits. The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

LONG BEACH WATER DEPARTMENT

Notes to Basic Financial Statements September 30, 2006 and 2005

All securities owned by the City are deposited in trust for safekeeping with a custodial bank different from the City's primary bank except for one City issued bond and investment in the State's Local Area Investment Fund.

Investment in State Investment Pool

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code section 16429 under the oversight of the Treasurer of the State of California. The fair value of the City's investment in this pool is reported in the accompanying financial statements at amounts based upon the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are mortgage-backed securities, loans to certain state funds, securities with interest rates that vary according to changes in rates greater than a one-for-one basis, and structured basis.

Reverse Repurchase Agreements

There were no transactions involving reverse repurchase agreements during the fiscal years ended September 30, 2006 and 2005.

Securities Lending

The City did not engage in limited securities-lending activities. These activities are governed by formal agreement with the City's contract bank, limiting the nature and amount of transactions that are subject to full collateralization.

LONG BEACH WATER DEPARTMENT

Notes to Basic Financial Statements September 30, 2006 and 2005

Note 3 – Capital Assets

Capital assets at September 30, 2006 and 2005 were as follows:

Water Fund	Balance October 1, 2004	Additions	Transfers, Deletions, And Retirements	Balance October 1, 2005	Additions	Transfers, Deletions, And Retirements	Balance September 30, 2006
Capital assets, not being depreciated:							
Land	\$ 11,279,519	-	-	11,279,519	-	-	11,279,519
Construction in progress	11,721,983	20,339,488	10,721,902	21,339,569	15,057,214	14,846,471	21,550,312
Total capital assets, not being depreciated	23,001,502	20,339,488	10,721,902	32,619,088	15,057,214	14,846,471	32,829,831
Capital assets, being depreciated:							
Buildings, structures and facilities	91,280,969	2,588,894	-	93,869,863	8,494,382	168,793	102,195,452
Distribution/collection systems	211,472,947	6,666,700	381,111	217,758,536	5,138,588	688,222	222,208,902
Machinery and equipment	11,097,507	317,675	18,611	11,396,571	577,723	250,368	11,723,926
Total capital assets, being depreciated	313,851,423	9,573,269	399,722	323,024,970	14,210,693	1,107,383	336,128,280
Less accumulated depreciation for:							
Buildings, structures and facilities	(20,214,432)	(2,661,144)	-	(22,875,576)	(2,638,776)	168,793	(25,345,559)
Distribution/collection systems	(75,546,633)	(4,647,080)	244,589	(79,949,124)	(4,388,515)	411,418	(83,926,221)
Machinery and equipment	(9,756,986)	(866,274)	18,609	(10,604,651)	(857,648)	249,991	(11,212,308)
Total accumulated depreciation	(105,518,051)	(8,174,498)	263,198	(113,429,351)	(7,884,939)	830,202	(120,484,088)
Total capital assets, being depreciated, net	208,333,372	1,398,771	136,524	209,595,619	6,325,754	277,181	215,644,192
Total Water Fund capital assets, net	\$ 231,334,874	21,738,259	10,858,426	242,214,707	21,382,968	15,123,652	248,474,023

Sewer Fund	Balance October 1, 2004	Additions	Deletions And Retirements	Balance October 1, 2005	Additions	Deletions And Retirements	Balance September 30, 2006
Capital assets, not being depreciated:							
Construction in progress	\$ 1,385,344.00	2,509,857	1,926,536	1,968,665	2,762,810	1,106,579	3,624,896
Total capital assets, not being depreciated	1,385,344	2,509,857	1,926,536	1,968,665	2,762,810	1,106,579	3,624,896
Capital assets, being depreciated:							
Buildings, structures and facilities	5,681,145	-	-	5,681,145	-	-	5,681,145
Distribution/collection systems	166,678,231	1,145,303	-	167,823,534	905,667	31,474	168,697,727
Machinery and equipment	3,510,225	39,368	-	3,549,593	107,059	84,700	3,571,952
Total capital assets, being depreciated	175,869,601	1,184,671	-	177,054,272	1,012,726	116,174	177,950,824
Less accumulated depreciation for:							
Buildings, structures and facilities	(446,532)	(116,256)	-	(562,788)	(116,256)	-	(679,044)
Distribution/collection systems	(133,549,359)	(808,576)	-	(134,357,935)	(909,783)	8,655	(135,259,063)
Machinery and equipment	(2,659,523)	(236,456)	-	(2,895,979)	(206,919)	84,700	(3,018,198)
Total accumulated depreciation	(136,655,414)	(1,161,288)	-	(137,816,702)	(1,232,958)	93,355	(138,956,305)
Total capital assets, being depreciated, net	39,214,187	23,383	-	39,237,570	(220,232)	22,819	38,994,519
Total Sewer Fund capital assets, net	\$ 40,599,531	2,533,240	1,926,536	41,206,235	2,542,578	1,316,108	42,619,415

LONG BEACH WATER DEPARTMENT

Notes to Basic Financial Statements September 30, 2006 and 2005

Combined Total	Balance October 1, 2004	Additions	Transfers, Deletions, And Retirements	Balance October 1, 2005	Additions	Transfers, Deletions, And Retirements	Balance September 30, 2006
Capital assets, not being depreciated:							
Land	\$ 11,279,519	-	-	11,279,519	-	-	11,279,519
Construction in progress	13,107,327	22,849,345	12,648,438	23,308,234	17,820,024	15,953,050	25,175,208
Total capital assets, not being depreciated	24,386,846	22,849,345	12,648,438	34,587,753	17,820,024	15,953,050	36,454,727
Capital assets, being depreciated:							
Buildings, structures and facilities	96,962,114	2,588,894	-	99,551,008	8,494,382	168,793	107,876,597
Distribution/collection systems	378,151,178	7,812,003	381,111	385,582,070	6,044,255	719,696	390,906,629
Machinery and equipment	14,607,732	357,043	18,611	14,946,164	684,782	335,068	15,295,878
Total capital assets, being depreciated	489,721,024	10,757,940	399,722	500,079,242	15,223,419	1,223,557	514,079,104
Less accumulated depreciation for:							
Buildings, structures and facilities	(20,660,964)	(2,777,400)	-	(23,438,364)	(2,755,032)	168,793	(26,024,603)
Distribution/collection systems	(209,095,992)	(5,455,656)	244,589	(214,307,059)	(5,298,298)	420,073	(219,185,284)
Machinery and equipment	(12,416,509)	(1,102,730)	18,609	(13,500,630)	(1,064,567)	334,691	(14,230,506)
Total accumulated depreciation	(242,173,465)	(9,335,786)	263,198	(251,246,053)	(9,117,897)	923,557	(259,440,393)
Total capital assets, being depreciated, net	247,547,559	1,422,154	136,524	248,833,189	6,105,522	300,000	254,638,711
Total Department capital assets, net	\$ 271,934,405	24,271,499	12,784,962	283,420,942	23,925,546	16,253,050	291,093,438

Construction in Progress

Construction in Progress at September 30, 2006 and 2005, includes the following projects:

Project	2006	2005
Water Main Replacement Program	\$ 6,885,068	3,712,960
Groundwater Storage Program	232,941	5,423,450
Seawater Desalination Project	9,280,471	7,469,259
Reclaimed Water System	687,694	2,883,434
Sewer main Replacement Program	3,504,697	1,848,467
Other Projects	4,584,336	1,970,664
Total Combined Construction in Progress	\$ 25,175,208	23,308,234
Such costs are allocated as follows:		
Water Fund	21,550,312	21,339,569
Sewer Fund	3,624,896	1,968,665
Total	\$ 25,175,208	23,308,234

It is the Department's policy to transfer the costs of projects after their completion to other capital asset classifications or to expense. For the fiscal years ended September 30, 2006 and 2005, completed projects were transferred from Construction in Progress as follows:

	2006		2005	
	Water Fund	Sewer Fund	Water Fund	Sewer Fund
Transfers to Capital Assets	\$ 14,776,618	1,106,579	10,160,726	1,925,595
Transfers to Expense	69,853	-	561,176	941
Total	\$ 14,846,471	1,106,579	10,721,902	1,926,536

LONG BEACH WATER DEPARTMENT

Notes to Basic Financial Statements
September 30, 2006 and 2005

Note 4 - Long-term Debt

September 30, 2006	Beginning of year	Water Fund		End of year	Due within one year
		Additions	Retirements		
Water Revenue					
Refunding Bonds	\$ 35,830,000	-	(1,155,000)	34,675,000	1,210,000
Commercial Paper	6,000,000	-	-	6,000,000	-
State Loan	367,859	-	(137,519)	230,340	143,038
	\$ 42,197,859	-	(1,292,519)	40,905,340	1,353,038
Less current portion	(1,292,519)			(1,353,038)	
Less unamortized bond discounts	(252,663)			(239,423)	
Less unamortized loss on refunding	(3,046,798)			(2,886,791)	
Total long-term liabilities	\$ 37,605,879			36,426,088	

September 30, 2005	Beginning of year	Water Fund		End of year	Due within one year
		Additions	Retirements		
Water Revenue					
Refunding Bonds	\$ 36,940,000	-	(1,110,000)	35,830,000	1,155,000
Commercial Paper	6,000,000	-	-	6,000,000	-
State Loan	500,073	-	(132,214)	367,859	137,519
	\$ 43,440,073	-	(1,242,214)	42,197,859	1,292,519
Less current portion	(1,242,214)			(1,292,519)	
Less unamortized bond discounts	(265,903)			(252,663)	
Less unamortized loss on refunding	(3,206,804)			(3,046,798)	
Total long-term liabilities	\$ 38,725,152			37,605,879	

The bonds are payable from and secured by net revenues of the Department.

Water Revenue Refunding Bonds - Series 1997

On October 15, 1997, the Water Fund issued \$46,945,000 in Water Revenue Refunding Bonds with an average interest rate of 5.195%. The Bonds were issued (i) to advance refund \$43,980,000 of outstanding 1994 Water Revenue Refunding Bonds, Series A; (ii) to establish a debt service reserve fund for the 1997 Bonds; and (iii) to pay the costs of issuance associated with the delivery and sale of the 1997 Bonds.

LONG BEACH WATER DEPARTMENT

Notes to Basic Financial Statements September 30, 2006 and 2005

The current refunding resulted in a difference between the reacquisition price and net carrying amount on the old debt of \$4,320,185. This difference, reported in the accompanying basic financial statements as a deduction from bonds payable, is being amortized using the straight line method over the life of the bonds. The Department in effect reduced its aggregate debt service payments by \$2,493,439 over the remaining 27 years thereby resulting in an economic gain of \$1,303,450.

The \$36,535,000 amount of defeased debt outstanding and removed from the Department's basic financial statements due to advanced refunding was redeemed on May 1, 2004.

The Bonds are secured by a first lien upon and pledge of all of the Net Revenues of the entire water system (the Water Enterprise Fund) of the City of Long Beach. Net Revenues are defined as all gross revenues derived by the ownership and operation of the Enterprise less operation and maintenance costs. The Board of Water Commissioners has covenanted, on behalf of the City, to set rates and charges for the supply of water to its customers sufficient to provide net revenues each year equal to at least 1.10 times the aggregate annual amount of principal and interest due on the Bonds and any parity obligations.

State Loan

In January 1987, the Department entered into a low-interest loan contract for \$2,000,000 with the State Water Resources Control Board for the purpose of funding the Reclaimed Water System Extension Project. The loan was funded in fiscal year 1988 and is payable in annual installments ranging from \$70,450 to \$143,040, at an interest rate of 4.0128% per year through January 2008.

Subordinate Water Revenue Commercial Paper Notes

On October 17, 2002 the Board of Water Commissioners approved Resolution WD-1170 which authorized the issuance and sale of up to \$15,000,000 of City of Long Beach, California Subordinate Water Revenue Commercial Paper Notes Series A (notes). The City's Water Enterprise subordinate net revenues (gross revenues less operation and maintenance costs) secure the notes. The City of Long Beach City Council approved the issuance and sale on October 29, 2002. Proceeds from the variable debt will be used for interim financing needs to assist with completing reclaimed system expansion projects that are partially funded by Federal and State Grants and for seawater desalination research and development, which is partially funded by a Federal Grant.

On January 8, 2003, notes in the amount of \$6,000,000 were issued. The notes are issued in denominations of \$100,000 and integral multiples of \$1,000 in excess of \$100,000 and will mature not more than 270 days after date of issuance. Interest rates have ranged from 0.95% to 3.40%. The Department intends to extend the notes to periods greater than a year; accordingly, the outstanding amount has been classified as a long-term obligation.

LONG BEACH WATER DEPARTMENT

Notes to Basic Financial Statements September 30, 2006 and 2005

Total Annual Debt Service Requirements to Maturity

Annual debt service requirements to maturity are as follows:

Fiscal Year Ended Sept 30	Series 1997 Bonds		State Loan		Total		Total Debt Service
	Principal	Interest	Principal	Interest	Principal	Interest	
2007	\$ 1,210,000	1,785,033	143,038	9,243	1,353,038	1,794,276	3,147,313
2008	1,265,000	1,730,583	87,302	412	1,352,302	1,730,995	3,083,297
2009	1,330,000	1,661,008			1,330,000	1,661,008	2,991,008
2010	1,405,000	1,587,858			1,405,000	1,587,858	2,992,858
2011	1,480,000	1,510,583			1,480,000	1,510,583	2,990,583
2012-2016	8,655,000	6,296,399			8,655,000	6,296,399	14,951,399
2017-2021	11,185,000	3,768,500			11,185,000	3,768,500	14,953,500
2022-2024	8,145,000	828,000			8,145,000	828,000	8,973,000
Total	<u>\$ 34,675,000</u>	<u>19,167,965</u>	<u>230,340</u>	<u>9,654</u>	<u>34,905,340</u>	<u>19,177,619</u>	<u>54,082,959</u>

Note 5 - Retirement Programs

The Department participates on a cost-sharing basis with the City in the California Public Employees' Retirement System (CalPERS), a defined benefit, agent multiple-employer pension system that acts as a common investment and administrative agent for entities in California. The Department is billed by the City for its share of pension costs at the rates established by CalPERS for the City's general employees. A separate pension obligation is not calculated by CalPERS at the Departmental level; accordingly, no separate Department obligation can be presented herein.

As employees of the City, the Department's full-time employees are eligible to participate in CalPERS and become vested in the system after five years of service. Upon vesting, employees on tier 1 (those hired on or before October 20, 1989) who retire at age 55 are entitled to receive an annual retirement benefit, payable monthly for life, in an amount equal to 2.7% (with a 5% annual COLA increase) of the employee's average salary during the highest paid year of employment for each year of credited service. Employees under tier 2 (those hired after October 20, 1989) who retire at age 55 are entitled to receive 2.7% (with a 2% annual COLA increase) of the employee's average salary during the three highest paid years of employment for each year of credited service. In September 2004, the basis to compute retirement benefits was unified under tier 1, with the exception of the COLA adjustment; this will remain the same as stated in the current stipulations. A third tier was set up effective October 1, 2006. New employees hired on or after October 1, 2006 will be under a new tier benefit of 2.5% at 55. The system also provides death and disability benefits.

In November 1998, CalPERS informed the City that all of its retirement plans were overfunded based on the actuarial valuation completed as of June 30, 1997 and the City would not be required to contribute to the CalPERS retirement plan until the existing surplus is exhausted. Accordingly, CalPERS reduced the City's employer contribution rates to zero for all plans effective November 13, 1998. CalPERS notified the City in July 1999 that employee contributions also paid for by the City would no longer be required. The City was overfunded

LONG BEACH WATER DEPARTMENT

Notes to Basic Financial Statements September 30, 2006 and 2005

through September 30, 2004 and was not required to pay CalPERS any employee or employer contributions for any of its plans through fiscal year 2004.

Contribution requirements of plan members and the City are established and may be amended by CalPERS. The City contribution payments to CalPERS were required beginning October 1, 2004 for both Safety and Miscellaneous Plans at 15.100% and 11.325% respectively, plus the employee rate of 9% and 8% for Safety and Miscellaneous respectively. Miscellaneous employees paid 2% to CalPERS, that when added to the 6% paid by the City makes up the 8% employee rate which was effective March 4, 2006. Management employees and certain employee groups who serve in sensitive, confidential capacities pay 1% of the 8% to CalPERS and the City pays 7%. Effective in fiscal year 2007 Safety will pay 2% of the 9% employee rate and all miscellaneous employees in tier one and tier two will pay 2% of the 8%. Miscellaneous employees in tier three will pay 2% of the 7% employee rate. In fiscal years 2006 and 2005, the Department's contributions to CalPERS were \$1,791,010 and \$1,461,238 for Water Fund and \$311,832 and \$243,166 for Sewer Fund, respectively, which represented 100% of the Department's required contributions.

Further information regarding the City's participation in CalPERS may be found in the City's Comprehensive Annual Financial Report for the year ended September 30, 2006.

Deferred Compensation Plan

The City offers a deferred compensation plan created in accordance with Internal Revenue Code Section 457 to its employees, in which the Department and its employees participate, allowing them to defer or postpone receipt of income. Amounts so deferred may not be paid to the employee during employment with the City except for a catastrophic circumstance creating an undue financial hardship for the employee.

Further information regarding the City's participation in Deferred Compensation may be found in the City's Comprehensive Annual Financial Report for the year ended September 30, 2006.

LONG BEACH WATER DEPARTMENT

Notes to Basic Financial Statements
September 30, 2006 and 2005

Note 6 - Operating Leases

The Department owns approximately 820 acres of land, approximately 80 acres of which is leased for commercial purposes. Minimum future rental income due to the Water Fund under noncancelable operating leases which have an initial term in excess of one year is as follows:

Year ended, September 30:	
2007	\$ 799,188
2008	825,959
2009	854,056
2010	883,556
2011	914,541
2012-2016	5,095,896
2017-2021	6,150,736
2022-2026	7,522,614
Total minimum future rentals	<u>\$ 23,046,545</u>

Note 7 - Commitments and Contingencies

Litigation

The Department is subject to claims and lawsuits arising from the normal course of business. Such claims are routinely evaluated by representatives of the City Attorney's office. Department management may make provision for probable losses if deemed appropriate on advice of legal counsel. To the extent that such provision for damages is considered necessary, appropriate amounts are reflected in the accompanying basic financial statements. Based upon information obtained from the City Attorney with respect to remaining cases, it is the opinion of management that any liability for unreserved claims and lawsuits will not have a material impact on the basic financial statements of the Department.

Commitments

Contract commitments and purchase orders for which materials or services were not received as of September 30, 2006 amount to \$6,167,247 and \$4,019,781 for the Water Fund and Sewer Fund respectively.

STATISTICAL SECTION
(Not Covered by Independent Auditors' Report)

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Financial Trends

These schedules contain trend information to help the reader understand how the Department's financial performance and well-being have changed over time.

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Exhibit 1

LONG BEACH WATER DEPARTMENT

**CHANGES IN NET ASSETS - WATER FUND
LAST TEN FISCAL YEARS**

(in thousands of dollars)

<u>Fiscal Year Ended</u>	<u>Total Operating Revenue</u>	<u>Total Operating Expense</u>	<u>Operating Income</u>	<u>Total Non-Operating Income (Expense)</u>	<u>Change in Net Assets</u>
9/30/1997	60,247	49,605	10,642	1,224	11,866
9/30/1998	56,395	48,554	7,841	344	8,186
9/30/1999	57,619	49,644	7,974	3,510	11,484
9/30/2000	60,252	53,836	6,416	(1,291)	5,125
9/30/2001	57,773	53,482	4,291	2,211	6,502
9/30/2002	58,970	56,071	2,899	421	3,320
9/30/2003	58,945	52,295	6,650	3,936	10,586
9/30/2004	63,185	55,604	7,581	2,461	10,042
9/30/2005	64,522	58,320	6,202	5,746	11,948
9/30/2006	66,074	60,981	5,093	1,943	7,036

Source: Department's annual reports

See accompanying independent auditors' report

(Unaudited)

Exhibit 2

LONG BEACH WATER DEPARTMENT

**CHANGES IN NET ASSETS - SEWER FUND
LAST TEN FISCAL YEARS**

(in thousands of dollars)

<u>Fiscal Year Ended</u>	<u>Total Operating Revenue</u>	<u>Total Operating Expense</u>	<u>Operating Income</u>	<u>Total Non-Operating Income (Expense)</u>	<u>Change in Net Assets</u>
9/30/1997	7,718	8,253	(535)	757	222
9/30/1998	7,847	8,039	(192)	965	774
9/30/1999	7,809	8,574	(765)	1,106	341
9/30/2000	7,922	9,705	(1,782)	1,119	(664)
9/30/2001	8,699	8,869	(170)	2,200	2,030
9/30/2002	8,050	7,538	512	495	1,007
9/30/2003	9,015	8,420	595	541	1,136
9/30/2004	9,280	7,766	1,514	(1,315)	199
9/30/2005	9,717	7,067	2,650	810	3,460
9/30/2006	9,244	7,736	1,508	355	1,863

Source: Department's annual reports

See accompanying independent auditors' report

(Unaudited)

Exhibit 3

LONG BEACH WATER DEPARTMENT

**NET ASSETS BY COMPONENT - WATER FUND
LAST SIX FISCAL YEARS**

(in thousands of dollars)

<u>Fiscal Year Ended</u>	<u>Invested in Capital Assets (net of related debt)</u>	<u>Restricted Net Assets</u>	<u>Unrestricted Net Assets</u>	<u>Total Net Assets</u>
9/30/2001	167,394	5,095	10,131	182,620
9/30/2002	175,501	5,098	5,341	185,939
9/30/2003	181,535	5,116	9,874	196,525
9/30/2004	191,067	4,298	11,202	206,567
9/30/2005	202,958	4,316	11,240	218,514
9/30/2006	210,282	4,355	10,914	225,551

Source: Department's annual reports

See accompanying independent auditors' report

(Unaudited)

Exhibit 4

LONG BEACH WATER DEPARTMENT

**NET ASSETS BY COMPONENT - SEWER FUND
LAST SIX FISCAL YEARS**

(in thousands of dollars)

<u>Fiscal Year Ended</u>	<u>Invested in Capital Assets (net of related debt)</u>	<u>Restricted Net Assets</u>	<u>Unrestricted Net Assets</u>	<u>Total Net Assets</u>
9/30/2001	31,922	-	12,660	44,582
9/30/2002	36,848	-	8,742	45,590
9/30/2003	42,095	-	4,631	46,725
9/30/2004	40,600	-	6,325	46,925
9/30/2005	41,206	-	9,179	50,385
9/30/2006	42,619	-	9,628	52,247

Source: Department's annual reports

See accompanying independent auditors' report

LONG BEACH WATER DEPARTMENT

WATER FUND REVENUE BY TYPE - LAST TEN FISCAL YEARS

(in thousands of dollars)

Fiscal Year Ended	OPERATING				NON-OPERATING			
	Water Sales	Service Charges	Other Operating Revenue	Total Operating Revenue	Interest Income	Rental Income	Other Income	Total Non-Operating Income
9/30/1997	47,460	10,486	2,301	60,247	1,488	570	2,882	4,940
9/30/1998	43,776	10,754	1,866	56,396	2,021	487	1,228	3,736
9/30/1999	44,967	10,880	1,772	57,619	1,803	608	4,244	6,655
9/30/2000	46,790	10,986	2,476	60,252	1,921	627	87	2,635
9/30/2001	44,663	11,003	2,107	57,773	1,351	657	3,768	5,776
9/30/2002	45,917	10,987	2,066	58,970	751	660	1,910	3,321
9/30/2003	44,547	11,175	3,223	58,945	576	699	554	1,829
9/30/2004	48,219	11,648	3,317	63,185	541	700	1,099	2,340
9/30/2005	47,354	12,302	4,866	64,522	556	804	488	1,848
9/30/2006	48,477	12,727	4,870	66,074	653	733	391	1,777

Source: Department's annual reports

See accompanying independent auditors' report

LONG BEACH WATER DEPARTMENT

SEWER FUND REVENUE BY TYPE - LAST TEN FISCAL YEARS

(in thousands of dollars)

Fiscal Year Ended	OPERATING			NON-OPERATING		
	Service Charges	Other Operating Revenue	Total Operating Revenue	Interest Income	Other Income	Total Non-Operating Income
9/30/1997	7,531	187	7,718	751	21	772
9/30/1998	7,646	201	7,847	915	50	965
9/30/1999	7,644	165	7,809	1,053	53	1,106
9/30/2000	7,816	106	7,922	1,154	31	1,185
9/30/2001	8,592	106	8,698	997	1,395	2,392
9/30/2002	7,964	86	8,050	547	184	731
9/30/2003	8,929	86	9,015	223	41	264
9/30/2004	8,447	832	9,280	149	5	154
9/30/2005	8,986	732	9,718	213	12	225
9/30/2006	8,464	780	9,244	366	0.58	366

Source: Department's annual reports

See accompanying independent auditors' report

LONG BEACH WATER DEPARTMENT

WATER FUND EXPENSES BY TYPE - LAST TEN FISCAL YEARS

(in thousands of dollars)

Fiscal Year Ended	OPERATING					NON-OPERATING		
	Cost of Water	Personal Services	Maintenance and Other	Depreciation Expense	Total Operating Expenses	Interest Expense	Loss on Disposition of Property & Other Expenses	Total Non-Operating Expense
9/30/1997	19,334	7,879	17,909	4,483	49,605	1,871	1,845	3,716
9/30/1998	17,856	9,094	15,982	5,622	48,554	2,785	607	3,392
9/30/1999	18,299	9,407	16,148	5,790	49,644	2,534	612	3,146
9/30/2000	19,343	9,058	18,108	7,327	53,836	2,389	1,537	3,926
9/30/2001	18,508	9,821	18,197	6,956	53,482	2,344	1,222	3,566
9/30/2002	18,384	10,781	19,158	7,748	56,071	2,280	619	2,899
9/30/2003	17,490	10,978	16,186	7,641	52,295	2,289	667	2,956
9/30/2004	18,581	11,572	17,598	7,852	55,604	2,243	285	2,528
9/30/2005	20,936	12,731	16,479	8,174	58,320	2,253	137	2,390
9/30/2006	19,179	12,974	20,943	7,885	60,981	2,255	213	2,468

Source: Department's annual reports

See accompanying independent auditors' report

LONG BEACH WATER DEPARTMENT

SEWER FUND EXPENSES BY TYPE - LAST TEN FISCAL YEARS

(in thousands of dollars)

Fiscal Year Ended	OPERATING			Total Operating Expenses	NON-OPERATING
	Personal Services	Maintenance and Other Expenses	Depreciation Expense		Total Non-Operating Expenses
9/30/1997	2,506	2,729	3,018	8,253	15
9/30/1998	1,935	2,961	3,142	8,038	-
9/30/1999	2,213	3,193	3,168	8,574	-
9/30/2000	2,483	3,417	3,805	9,705	66
9/30/2001	2,627	3,908	2,333	8,868	191
9/30/2002	2,829	3,538	1,171	7,538	234
9/30/2003	2,938	4,379	1,103	8,420	-
9/30/2004	2,912	3,706	1,148	7,766	-
9/30/2005	2,648	3,258	1,161	7,067	-
9/30/2006	2,689	3,815	1,233	7,737	12

Source: Department's annual reports

See accompanying independent auditors' report

Revenue Capacity

These schedules contain information to help the reader assess the Department's significant revenue sources.

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LONG BEACH WATER DEPARTMENT

SOURCE OF WATER (PUMPED, PURCHASED AND RECLAIMED) AND CONSUMPTION - LAST TEN FISCAL YEARS

(in thousands of gallons, except population)

Fiscal Year Ended	SOURCE OF SUPPLY				CONSUMPTION			
	Potable Water		Reclaimed Water	Total Supply	Average Daily Demand Potable Water (1)	Peak Day Distribution	Average Daily Sales Per Capita	Population (2)
	Pumped	Purchased						
9/30/1997	7,479,258	15,652,253	1,647,829	24,779,340	63,374	86,590	154	441,718
9/30/1998	7,700,837	14,038,964	1,370,203	23,110,004	59,561	85,630	142	445,448
9/30/1999	7,703,443	14,421,188	1,494,353	23,618,984	60,615	80,700	144	450,822
9/30/2000	8,076,869	15,143,925	1,691,167	24,911,961	63,551	87,210	149	457,608
9/30/2001	7,973,795	14,377,730	1,363,566	23,715,091	61,237	86,120	141	461,522
9/30/2002	8,479,000	14,246,000	1,790,000	24,515,000	62,260	87,000	142	473,131
9/30/2003	7,445,000	14,567,000	1,671,000	23,683,000	60,307	89,000	135	480,973
9/30/2004	8,354,494	14,761,376	1,956,084	25,071,953	63,331	84,310	141	487,112
9/30/2005	7,041,640	14,536,539	1,382,586	22,960,765	59,118	86,570	128	491,564
9/30/2006	8,198,411	13,452,433	1,956,735	23,607,579	59,317	80,770	132	490,166

Note: (1) Does not include reclaimed water which is used for irrigation only.

(2) City's Planning & Building Department

Source: Department's annual reports

See accompanying independent auditors' report

LONG BEACH WATER DEPARTMENT
WATER RATES: VOLUMETRIC RATE CHARGES
LAST TEN FISCAL YEARS

Effective Date	Potable Water - Monthly Amount per Billing Unit (1)			Reclaimed Water
	TIER I First Five Billing Units	TIER II (2) Next Ten Billing Units	TIER III Over Fifteen Billing Units	Monthly Amount Per Cubic Foot
7/1/1995	0.869	1.610	-	0.835
10/1/1996	1.002	1.603	1.647	0.882
10/31/1996	1.079	1.727	1.813	0.950
1/1/1997	1.088	1.740	1.827	0.957
10/1/1997	1.097	1.687	1.814	1.012
10/1/1998	1.129	1.672	1.840	1.087
10/1/1999	1.188	1.639	1.885	1.147
10/1/2000	1.256	1.570	1.962	1.099
10/1/2001	1.305	1.535	2.072	1.075
10/1/2002	1.356	1.507	2.109	1.055
10/1/2003	1.394	1.549	2.323	1.084
10/1/2004	1.457	1.619	2.428	1.133
10/1/2005	1.515	1.683	2.525	1.178

Note: (1) Volumetric rate charges for Single family residence, not granted an exemption (one billing unit equals 100 cubic feet).
(2) All non-residential customers are charged at the Tier II rate.

Source: Department's records

See accompanying independent auditors' report

LONG BEACH WATER DEPARTMENT
WATER RATES: DAILY SERVICE CHARGE BY SIZE
LAST TEN FISCAL YEARS

Effective Date	3/4" (1)	1"	1-1/2"	2"	3"	4"	6"	8"	10"	12"	16"
7/1/1995	0.25	0.37	0.68	1.02	2.11	3.33	6.14	9.64	15.78	19.28	31.91
10/1/1996	0.25	0.38	0.70	1.04	2.15	3.41	6.28	9.87	16.14	19.73	32.65
1/1/1997	0.25	0.38	0.71	1.05	2.17	3.43	6.32	9.94	16.26	19.87	32.89
10/1/1997	0.25	0.38	0.71	1.05	2.18	3.45	6.36	9.98	16.34	19.97	33.05
10/1/1998	0.25	0.38	0.71	1.06	2.19	3.47	6.39	10.03	16.42	20.07	33.22
10/1/1999	0.26	0.39	0.72	1.06	2.20	3.48	6.42	10.08	16.50	20.17	33.38
10/1/2000	0.26	0.39	0.72	1.06	2.20	3.48	6.42	10.08	16.50	20.17	33.38
10/1/2001	0.26	0.39	0.72	1.06	2.20	3.48	6.42	10.08	16.50	20.17	33.38
10/1/2002	0.26	0.39	0.72	1.06	2.20	3.48	6.42	10.08	16.50	20.17	33.38
10/1/2003	0.27	0.40	0.75	1.11	2.29	3.62	6.68	10.48	17.16	20.98	34.72
10/1/2004	0.28	0.42	0.78	1.16	2.39	3.79	6.98	10.95	17.94	21.92	36.28
10/1/2005	0.29	0.44	0.81	1.20	2.49	3.94	7.26	11.39	18.65	22.80	37.73

Note: (1) Normal residential size (69,494 of the 89,471 total services).

Source: Department's records

See accompanying independent auditors' report

LONG BEACH WATER DEPARTMENT

WATER RATES: DAILY FIRELINE SERVICE CHARGE BY SIZE
LAST TEN FISCAL YEARS

Effective Date	2"	3"	4"	6"	8"	10"	12"	16"
7/1/1995	0.47	0.81	1.19	2.03	2.98	4.03	5.08	7.45
10/1/1996	0.48	0.83	1.22	2.08	3.05	4.13	5.20	7.62
10/31/1996	0.52	0.89	1.31	2.24	3.28	4.44	5.60	8.21
1/1/1997	0.52	0.90	1.32	2.26	3.31	4.48	5.64	8.27
10/1/1997	0.52	0.90	1.33	2.26	3.32	4.49	5.67	8.31
10/1/1998	0.53	0.91	1.34	2.28	3.34	4.52	5.70	8.36
10/1/1999	0.53	0.91	1.34	2.29	3.36	4.54	5.73	8.40
10/1/2000	0.53	0.91	1.34	2.29	3.36	4.54	5.73	8.40
10/1/2001	0.53	0.91	1.34	2.29	3.36	4.54	5.73	8.40
10/1/2002	0.53	0.91	1.34	2.29	3.36	4.54	5.73	8.40
10/1/2003	0.55	0.95	1.40	2.38	3.49	4.73	5.96	8.73
10/1/2004	0.58	0.99	1.46	2.49	3.65	4.94	6.22	9.13
10/1/2005	0.60	1.03	1.52	2.59	3.80	5.14	6.47	9.49

Source: Department's records

See accompanying independent auditors' report

LONG BEACH WATER DEPARTMENT

NUMBER OF WATER SERVICES, AVERAGE MONTHLY WATER CONSUMPTION &
AVERAGE MONTHLY WATER BILL BY SERVICE SIZE

Fiscal Year Ended September 30, 2006

<u>Water Service Size</u>	<u>Number of Services at September 30, 2006</u>	<u>Average Consumption per Month (in hundred cubic feet)</u>	<u>Average Monthly Bill</u>
3/4"	69,494	14	\$ 33.73
1"	11,101	23	55.17
1-1/2"	4,259	61	132.15
2"	2,673	98	199.99
3"	594	221	440.59
4"	459	148	316.03
6"	484	189	420.68
8"	332	343	740.54
10"	64	1,237	1,400.54
12"	9	2,829	5,299.21
16"	<u>2</u>	3	144.05
Total	<u><u>89,471</u></u>		

Source: Department's utility billing records

See accompanying independent auditors' report

(Unaudited)

Exhibit 14

LONG BEACH WATER DEPARTMENT

TEN LARGEST WATER USERS IN CITY OF LONG BEACH

Fiscal Year Ended September 30, 2006

Ranking	Customer	Sales	Gallons (000's)	Cubic Feet (000's)	Acre Feet	Percent of Total
1	City of Long Beach	\$ 2,319,546	1,169,008	\$ 156,274	3,588	5.76 %
2	Long Beach Unified School District	641,175	213,572	28,550	655	1.05
3	Montenay Pacific Power Corporation	439,590	193,127	25,817	593	0.95
4	AES Southland LLC	389,758	170,332	22,770	523	0.84
5	California State University Long Beach	346,040	142,726	19,080	438	0.70
6	L.A.D.W.P.	318,301	135,344	18,093	415	0.67
7	L.A. County Community Development	270,716	89,010	11,899	273	0.44
8	Veterans Affairs Medical Hospital	235,997	101,624	13,585	312	0.50
9	Memorial Medical Center	222,542	93,037	12,437	286	0.46
10	CALTRANS - D07	201,673	77,144	10,313	237	0.38
	Total Ten Largest Users	5,385,338	2,384,922	318,818	7,319	11.76
	Total All Other Users	54,218,654	18,061,018	2,414,410	54,912	88.24
	Total City	\$ 59,603,992	20,445,940	2,733,228	62,231	100.00

Note: 1 acre foot = 325,851 gallons = 43,560 cubic feet

Source: City's Commercial Services Bureau - "Top 100 Water Customers Report" (UBWLGXR2)

See accompanying independent auditors' report

LONG BEACH WATER DEPARTMENT

SEWER RATES: DAILY SERVICE CHARGES BY SIZE, VOLUMETRIC RATE AND CAPACITY CHARGES⁽¹⁾

Fiscal Year Ended September 30, 2006

<u>Water Service Size</u>	<u>Daily Charge</u>	<u>Volumetric Rate per 100 cubic feet</u>
5/8 or 3/4"	\$ 0.111	\$ 0.154
1"	0.176	0.154
1-1/2"	0.320	0.154
2"	0.464	0.154
3"	0.960	0.154
4"	1.521	0.154
6"	2.800	0.154
8"	4.400	0.154
10"	7.198	0.154
12"	8.798	0.154
16"	14.397	0.154

Note: (1) A one-time capacity charge of \$75.02 per equivalent fixture unit is applied to all new developments in the City.

Source: Department's records

See accompanying independent auditors' report

(Unaudited)

Exhibit 16

LONG BEACH WATER DEPARTMENT

NUMBER OF SEWER SERVICES AND AVERAGE MONTHLY SEWER BILL BY SERVICE SIZE

Fiscal Year Ended September 30, 2006

<u>Water Service Size</u>	<u>Number of Services</u>	<u>Average Monthly Bill</u>
3/4"	69,804	\$ 4.67
1"	10,991	7.92
1-1/2"	4,084	17.43
2"	2,233	28.46
3"	419	62.47
4"	137	99.64
6"	85	218.59
8"	51	259.59
10"	11	742.05
12"	<u>6</u>	521.67
Total	<u><u>87,821</u></u>	

Source: Department's records

See accompanying independent auditors' report

LONG BEACH WATER DEPARTMENT

TEN LARGEST SEWER USERS IN CITY OF LONG BEACH

Fiscal Year Ended September 30, 2006

Ranking	Customer	Sales	Gallons (000's)	Cubic Feet (000's)	Acre Feet	Percent of Total
1	City of Long Beach	\$ 154,724	491,194	65,663	1,507	3.31 %
2	Long Beach Unified School District	76,209	122,361	16,357	376	0.82
3	California State University, Long Beach	38,548	138,692	18,541	426	0.93
4	The Boeing Company	27,666	87,381	11,681	268	0.59
5	Memorial Medical Center	24,199	91,967	12,294	282	0.62
6	L A County Community Development	22,557	65,416	8,745	201	0.44
7	California Department of Transportation	12,955	39,850	5,327	122	0.27
8	National Gypsum	11,995	50,465	6,746	155	0.34
9	American Textile Maint. Company	11,860	52,646	7,038	162	0.35
10	Hyatt Regency Hotel	11,705	47,232	6,314	145	0.32
	Total Ten Largest Users	392,418	1,187,203	158,706	3,644	7.99
	Total All Other Users	7,251,325	13,673,870	1,827,933	41,964	92.01
	Total City	\$ 7,643,743	14,861,073	1,986,639	45,608	100.00

Note: 1 acre foot = 325,851 gallons = 43,560 cubic feet

Source: City's Commercial Services Bureau - "Top 100 Sewer Customers Report" (UBSLGXR2)

See accompanying independent auditors' report

LONG BEACH WATER DEPARTMENT
WATER REUSE SITES (RECLAIMED WATER USERS)

Fiscal Year Ended September 30, 2006

	Reuse (in acre feet)
1 Thums	1,294
2 Alamitos Barrier	1,170
3 El Dorado Park & Golf Course	942
4 Recreation Park South, Golf Course, Bowling Green, & Joe Rogers Field	419
5 Lakewood County Golf Course	379
6 Virginia Country Club Golf Course	333
7 Heartwell Park and Golf Course	309
8 Skylinks Golf Course	286
9 California State University, Long Beach	127
10 All Souls Cemetery	113
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29 Lakewood First Presbyterian Church	3
30 Somerset Park	1
Totals	<u>5,978</u>

Notes: 1 acre foot = 325,851 gallons = 43,560 cubic feet

Source: Department's records

See accompanying independent auditors' report

Debt Capacity Information

These schedules contain information to help the reader assess the affordability of the Department's current levels of outstanding debt and ability to issue additional debt in the future.

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LONG BEACH WATER DEPARTMENT

WATER FUND DEBT SERVICE COVERAGE - LAST TEN FISCAL YEARS

(in thousands of dollars)

Fiscal Year Ended	Total Operating Revenue	Operating Expenses (1)	Net Operating Income	Net Non-Operating Income (2)	Amount Available for Debt Service	Principal	Interest	Total Debt Service	Times Coverage
9/30/1997	60,247	45,122	15,125	4,940	20,065	2,553	2,933	5,486	3.66
9/30/1998	56,395	42,932	13,463	3,736	17,199	2,709	1,478	4,187	4.11
9/30/1999	57,619	43,854	13,765	6,655	20,420	2,989	2,396	5,385	3.79
9/30/2000	60,252	46,509	13,743	2,659	16,402	1,979	2,197	4,176	3.93
9/30/2001	57,773	46,526	11,247	1,476	12,723	1,587	2,152	3,739	3.40
9/30/2002	58,970	48,323	10,647	1,615	12,262	1,692	2,049	3,741	3.28
9/30/2003	58,945	44,654	14,291	1,829	16,120	1,772	1,979	3,751	4.30
9/30/2004	63,185	47,752	15,433	2,340	17,773	1,242	1,904	3,146	5.65
9/30/2005	64,522	50,146	14,376	1,848	16,224	1,292	1,851	3,143	5.16
9/30/2006	66,074	53,096	12,978	1,777	14,755	1,353	1,794	3,147	4.69
Bond Issues: Water Revenue Refunding Bonds - 1997 Series A						Average Coverage, ten years		4.20	
						Rate Covenant (1997 Issue)		1.10	

Notes: (1) Operating Expenses are exclusive of depreciation expense.

(2) Net Non-Operating Income is exclusive of bond interest, amortization of bond issue costs, contributed capital and loss on disposition of property.

Source: Department's annual reports

See accompanying independent auditors' report

LONG BEACH WATER DEPARTMENT

SEWER FUND DEBT SERVICE COVERAGE - LAST TEN FISCAL YEARS

(in thousands of dollars)

Fiscal Year Ended	Total Operating Revenue	Operating Expenses (1)	Net Operating Income	Net Non-Operating Income (2)	Amount Available for Debt Service	Principal	Interest	Total Debt Service	Times Coverage
9/30/1997	7,718	5,235	2,483	772	3,255	-	-	-	n/a
9/30/1998	7,847	4,897	2,950	965	3,915	-	-	-	n/a
9/30/1999	7,809	5,406	2,403	1,106	3,509	-	-	-	n/a
9/30/2000	7,922	5,900	2,022	1,212	3,234	-	-	-	n/a
9/30/2001	8,698	6,535	2,163	858	3,021	-	-	-	n/a
9/30/2002	8,050	6,367	1,683	312	1,995	-	-	-	n/a
9/30/2003	9,015	7,317	1,698	264	1,962	-	-	-	n/a
9/30/2004	9,280	6,618	2,662	154	2,816	-	-	-	n/a
9/30/2005	9,718	5,906	3,812	225	4,037	-	-	-	n/a
9/30/2006	9,244	6,504	2,740	366	3,106	-	-	-	n/a
Bond Issues: None						Average Coverage, ten years		n/a	
						Rate Covenant		n/a	

Notes: (1) Operating Expenses are exclusive of depreciation expense.

(2) Net Non-Operating Income is exclusive of contributed capital and loss on disposition of property.

Source: Department's annual reports

See accompanying independent auditors' report

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the Department's financial activities take place.

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LONG BEACH WATER DEPARTMENT

DEMOGRAPHIC STATISTICS
LAST TEN FISCAL YEARS

<u>Fiscal Year Ended</u>	<u>Estimated Population (1)</u>	<u>Per Capita Personal Income (2)</u>	<u>Unemployment Rate (3)</u>
9/30/1997	441,718	25,239	6.6%
9/30/1998	446,227	27,220	6.2%
9/30/1999	452,905	27,973	5.6%
9/30/2000	459,900	29,232	5.5%
9/30/2001	467,300	30,503	5.7%
9/30/2002	473,100	30,828	6.3%
9/30/2003	480,400	31,452	6.4%
9/30/2004	487,100	33,179	5.9%
9/30/2005	491,564	n/a	6.5%
9/30/2006	490,166	n/a	5.3%

Source: (1) City's Planning & Building Department

(2) U.S. Department of Commerce, Bureau of Economic Analysis: Los Angeles-Long Beach-Glendale.

The Bureau reports information for the previous year after 16 months of the calendar year end.

(3) Average annual rate reported by California Employment Development Department (EDD).

See accompanying independent auditors' report

LONG BEACH WATER DEPARTMENT**MAJOR EMPLOYERS
CURRENT YEAR AND NINE YEARS AGO**

Employer	Fiscal Year 2006		Fiscal Year 1997	
	Number of Employees (1)	Percentage of Total City Employment (2)	Number of Employees (1)	Percentage of Total City Employment (2)
Long Beach Unified School District	9,064	3.90%	11,887	5.67%
The Boeing Company	6,525	2.81%	19,808	9.46%
California State University Long Beach(3)	6,007	2.59%	2,755	1.32%
City of Long Beach	5,854	2.52%	5,605	2.68%
Long Beach Memorial Medical Center	3,500	1.51%	3,876	1.85%
Verizon	2,000	0.86%	n/a	n/a
Long Beach City College	2,000	0.86%	1,518	0.72%
U.S. Postal Service	1,900	0.82%	910	0.43%
Veterans Affairs Medical Center	1,700	0.73%	2,278	1.09%
St. Mary Medical Center	1,634	0.70%	1,779	0.85%

Sources: (1) City of Long Beach Community Development Long Beach Major Employer Directory-current listing

(2) U.S. Census Bureau Labor Force as of 2005

(3) Includes 1,011 part-time employees

See accompanying independent auditors' report

LONG BEACH WATER DEPARTMENT**NUMBER OF EMPLOYEES BY FUND**

<u>Fiscal Year Ended</u>	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
9/30/1999	181	27	208
9/30/2000	185	29	214
9/30/2001	195	28	223
9/30/2002	199	36	235
9/30/2003	196	41	237
9/30/2004	198	33	231
9/30/2005	192	27	219
9/30/2006	184	30	214

Sources: Department's Personnel records

See accompanying independent auditors' report

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Operating Information

These schedules contain information about operations and resources to help the reader understand how the Department's financial information relates to the services the Department provides and the activities it performs.

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LONG BEACH WATER DEPARTMENT

WATER DEMAND - LAST TEN FISCAL YEARS

(in acre feet)

Fiscal Year Ended	Potable Water		Total Potable Demand	Reclaimed Water	Total Demand
	Pumped	Purchased			
9/30/1997	22,953	48,035	70,988	5,057	76,045
9/30/1998	23,633	43,084	66,717	4,205	70,922
9/30/1999	23,641	44,257	67,898	4,586	72,484
9/30/2000	24,787	46,475	71,262	5,190	76,452
9/30/2001	24,465	44,117	68,582	4,184	72,766
9/30/2002	25,993	43,718	69,711	5,493	75,204
9/30/2003	22,849	44,705	67,554	5,127	72,681
9/30/2004	25,639	45,301	70,940	6,003	76,943
9/30/2005	21,610	44,611	66,221	4,243	70,464
9/30/2006	25,160	41,284	66,444	6,005	72,449

Note: One acre foot equals 43,560 cubic feet or 325,851 gallons.

Source: Department's annual reports

See accompanying independent auditors' report

LONG BEACH WATER DEPARTMENT

METROPOLITAN WATER DISTRICT'S RATE CHANGES - LAST TEN FISCAL YEARS

(in dollars per acre foot)

<u>Effective Date</u>	<u>Non-Interruptible Treated Water</u>	<u>Percent Change Non-Interruptible Treated Water</u>	<u>Seasonal Treated Water (1)</u>
1/1/1997	431	1	290
7/1/1998	431	0	290
7/1/1999	431	0	290
7/1/2000	431	0	290
7/1/2001	431	0	290
7/1/2002	431	0	290
1/1/2003	408	-5	267
1/1/2004	418	2	277
1/1/2005	443	6	302
1/1/2006	453	2	312

Note: (1) New program in fiscal year 1992-93.

Source: Metropolitan Water District of Southern California

See accompanying independent auditors' report

LONG BEACH WATER DEPARTMENT

WATER REPLENISHMENT DISTRICT ASSESSMENT (PUMP TAX) - LAST TEN FISCAL YEARS

<u>Effective Date</u>	<u>Rate per Acre-Foot</u>	<u>Percent Change</u>
7/1/1997	155.00	(4)
7/1/1998	151.00	(3)
7/1/1999	139.00	(8)
7/1/2000	112.00	(19)
7/1/2001	112.00	0
7/1/2002	117.60	5
7/1/2003	115.00	(2)
7/1/2004	128.25	12
7/1/2005	134.66	5
7/1/2006	138.00	2

Source: Water Replenishment District of Southern California (WRD)

See accompanying independent auditors' report

LONG BEACH WATER DEPARTMENT
OPERATING AND CAPITAL ASSETS STATISTICS - WATER FUND
LAST TEN FISCAL YEARS

Fiscal Year Ended	Water System				Water Quality		Reclaimed System
	Number of Groundwater wells	Miles of water mains	Number of active water service connections	Number of fire hydrants	Number of water samples collected	Number of tests performed	Miles of Pipeline
9/30/1997	29	917	88,358	6,662	16,402	58,678	25
9/30/1998	29	909	88,187	6,613	20,200	77,370	25
9/30/1999	29	910	88,395	6,717	12,560	41,370	30
9/30/2000	29	913	88,636	6,767	13,429	47,558	30
9/30/2001	29	911	88,754	6,600	13,797	45,609	30
9/30/2002	29	911	88,912	6,500	14,083	49,306	30
9/30/2003	29	911	89,139	6,442	14,000	54,000	33
9/30/2004	29	907	89,273	6,640	16,400	55,000	33
9/30/2005	29	907	89,365	6,501	16,030	48,910	33
9/30/2006	29	907	89,471	6,505	15,676	57,581	33

Source: Department's records

See accompanying independent auditors' report

LONG BEACH WATER DEPARTMENT

OPERATING AND CAPITAL ASSETS STATISTICS - SEWER FUND
LAST TEN FISCAL YEARS

<u>Fiscal Year Ended</u>	<u>Number of sewer pump stations</u>	<u>Miles of sewer pipelines</u>	<u>Number of sewer manholes</u>
9/30/1997	28	763	15,000
9/30/1998	28	763	15,000
9/30/1999	28	704	15,000
9/30/2000	28	704	15,593
9/30/2001	28	712	15,595
9/30/2002	28	712	15,595
9/30/2003	28	712	15,924
9/30/2004	28	712	16,031
9/30/2005	28	712	16,041
9/30/2006	28	712	16,044

Source: Department's records

See accompanying independent auditors' report

LONG BEACH WATER DEPARTMENT

INFRASTRUCTURE MAINTENANCE AND IMPROVEMENTS
LAST TEN FISCAL YEARS

<u>Fiscal Year Ended</u>	<u>Cast Iron Water Mains Replaced (in feet)</u>	<u>Fire Hydrants Repaired</u>	<u>Water Meters Repaired</u>	<u>Sewer Mains & Laterals Repaired (1)</u>	<u>Sewer Mains Cleaned (in miles)</u>	<u>Sewer Manholes Chemically Treated</u>	<u>Storm Drain Catch Basins Cleaned (2)</u>
9/30/1997	68,148	1,165	14,238	7,186	453	10,142	4,950
9/30/1998	70,583	185	12,200	1,600	405	7,959	4,990
9/30/1999	75,244	475	18,674	2,232	318	7,184	6,436
9/30/2000	75,005	183	17,561	4,524	257	4,843	5,070
9/30/2001	61,765	358	10,713	384	291	3,501	6,865
9/30/2002	85,297	732	2,960	147	396	5,000	6,269
9/30/2003	71,000	395	2,900	97	341	3,000	8,614
9/30/2004	63,960	376	7,076	316	437	3,000	10,202
9/30/2005	50,601	342	6,889	246	338	3,000	3,911
9/30/2006	55,404	259	5,370	296	474	3,000	5,110

Note: (1) For fiscal years 1996 through 2000, the Water Department tracked repairs by number of feet. Beginning in fiscal year 2001, repairs are tracked according to the number of jobs.

(2) Effective October 1, 2003, the Water Department transferred ownership and responsibility for City Storm drain system assets back to the City's Department of Public Works. However, the Water Department continues to operate and maintain the storm drain system on a cost reimbursement basis.

Source: Department's records

See accompanying independent auditors' report

**Redevelopment Agency of the City of Long Beach
(A Component Financial Reporting Unit of the
City of Long Beach, California)**

Annual Financial Report

Fiscal Year Ended September 30, 2006

CITY OF LONG BEACH, CALIFORNIA

Redevelopment Agency of the City of Long Beach
(A Component Financial Reporting Unit of the City of Long Beach, California)
September 30, 2006

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Redevelopment Agency of the City of Long Beach
(A Component Financial Reporting Unit of the City of Long Beach, California)
September 30, 2006

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Redevelopment Agency of the City of Long Beach
(A Component Financial Reporting Unit of the City of Long Beach, California)
September 30, 2006

Members of the Redevelopment Agency Board

	<u>Term Expires</u>
Thomas T. Fields, Chair	June 2007
Neil E. McCrabb, Vice Chair	June 2007
Diane L. Arnold	June 2007
William E. Baker	June 2007
Terry G. Jensen	June 2009
Rick Meghiddo	June 2007
Vivian M. Tobias	June 2009

Management

Patrick H. West, Executive Director

Craig Beck, Manager

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KPMG LLP
Suite 2000
355 South Grand Avenue
Los Angeles, CA 90071-1568

Independent Auditors' Report

The Honorable Mayor and City Council of the City of Long Beach, California
The Honorable Members of the Redevelopment Agency Board
The Citizens of the City of Long Beach, California:

We have audited the accompanying financial statements of the governmental activities and each major fund of the Redevelopment Agency of City of Long Beach (the Agency), a component financial reporting unit of the City of Long Beach, California, (the City) and of the Low- and Moderate-Income Housing fund, as of and for the year ended September 30, 2006, which collectively comprise the Agency's combined financial statements as listed in the table of contents. These combined financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these combined financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described more fully in note 1, the Agency has prepared these combined financial statements using accounting practices required by the State of California Health and Safety Code Section 33080.1, which practices differ from U.S. generally accepted accounting principles. The funds included in the Low- and Moderate-Income Housing Fund columns presented in these combined financial statements are not maintained by the Agency and, accordingly, are not includable in financial statements prepared in accordance with U.S. generally accepted accounting principles. However, State of California Health and Safety Code Section 33080.1 requires the Agency to prepare financial statements that include these funds. The effect on these combined financial statements of the inclusion of these funds is apparent in the columns labeled Low- and Moderate-Income Housing Fund.

In our opinion, because of the effects of including the Low- and Moderate-Income Housing Fund as a separate column in the Agency's combined financial statements, the combined financial statements referred to above do not present fairly, in conformity with U.S. generally accepted accounting principles, the financial position of the Agency as of September 30, 2006, or the changes in the Agency's financial position for the year then ended.

However, in our opinion, the combined financial statements referred to above do present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Agency and the Low- and Moderate-Income Housing Fund as of September 30, 2006, and the respective changes in financial position for the year then ended, on the basis of accounting described in note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2007 on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 5 through 13 is not a required part of the basic combined financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purposes of forming opinions on the financial statements that collectively comprise the combined financial statements of the Redevelopment Agency of the City of Long Beach and the Low- and Moderate-Income Housing Fund. The accompanying information identified in the table of contents as the supplementary financial information section and the general information section are presented for the purposes of additional analysis and are not required parts of the basic combined financial statements. The accompanying statements and schedules included in the supplementary financial information section have been subjected to the auditing procedures applied in the audit of the basic combined financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic combined financial statements taken as a whole. The accompanying information in the general information section has not been subjected to the auditing procedures applied in the audit of the basic combined financial statements and, accordingly, we express no opinion on it.

KPMG LLP

January 31, 2007

Management's Discussion and Analysis

Redevelopment Agency of the City of Long Beach
(A Component Financial Reporting Unit of the City of Long Beach, California)
Management's Discussion and Analysis
September 30, 2006

The information presented in the "Management's Discussion and Analysis" (MD&A) is intended to be a narrative overview and analysis of the Redevelopment Agency of the City of Long Beach's (Agency) financial activities for the fiscal year ended September 30, 2006. We encourage readers to consider this information in conjunction with the accompanying combined financial statements. The MD&A includes only the activity of the Agency and excludes the Low- and Moderate-Income Housing Fund.

Financial Highlights

Government-wide

- The liabilities of the Agency exceeded its assets at September 30, 2006, by \$159,807,000. Of this amount \$1,244,000 is invested in capital assets, net of related debt and assets totaling \$156,179,000 restricted for specific purposes. The Agency's accumulated net deficit of resulted mainly from long-term debt due to the City of Long Beach and bonds payable, both intended to be relieved from future tax increment revenues, as well as any other available revenue resources.
- The Agency's total net assets increased by \$12,737,000. This is the result of total revenues of \$82,593,000 exceeding program expenses of \$69,856,000. The increase in revenues were primarily in tax increment revenues of the West Beach, West Long Beach Industrial, Central Long Beach and North Long Beach Project Areas.
- The Agency's net long-term debt decreased by \$6,524,000 during the current fiscal year. The decrease is due to repayments net of advance refunding of Downtown and North Long Beach project areas Series 2002A bonds.
- The Agency's current and other liabilities decreased by \$9,016,000 during the current fiscal year. The decrease is mainly due to interim advances from the City of Long Beach which is significantly lower at the end of the current year.

Fund basis

- As of September 30, 2006 the Agency's governmental funds reported an ending fund balance of \$328,520,000, a \$5,685,000 improvement from the prior fiscal year's restated fund balance of \$322,835,000 due to the increase in tax increment revenues primarily in the West Long Beach Industrial, Central Long Beach and North Long Beach Project Areas.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Agency's combined financial statements. The Agency's combined financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to combined financial statements. This report also contains other supplementary information in addition to the combined financial statements.

Redevelopment Agency of the City of Long Beach
(A Component Financial Reporting Unit of the City of Long Beach, California)
Management's Discussion and Analysis
September 30, 2006

Government-wide financial statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the Agency's finances, in a manner similar to a private sector business.

The *statement of net assets* presents information on all of the Agency's assets and liabilities, with the difference reported as *net assets*. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the Agency is improving or deteriorating.

The statement of activities presents information showing how the Agency's net assets changed during the current fiscal year. Changes in net assets are reported as soon as the underlying event giving rise to change occurs, *regardless of the timing of the related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows for future fiscal periods. This statement shows the extent to which the various functions depend on general taxes and non-program revenues for support.

Governmental activities of the Agency include housing, community and economic development, public improvements and debt service. The activities of the Agency are carried out in seven project areas.

The State of California Health and Safety Code Section 33080.1 requires every redevelopment agency to submit an annual audit of the financial statements of the agency which presents the results of the operations and financial position of the agency, including all financial activities with moneys required to be held in a separate Low- and Moderate Income Housing Fund pursuant to Section 33334.3. As such, the Agency has included in the accompanying combined financial statements the Low- and Moderate-Income Housing Fund which represents funds recorded within the City of Long Beach and the Long Beach Housing Development Company for the purpose of recording the Agency's 20% set aside tax increment revenues that the State of California Health and Safety code Section 33334.2 requires to be used to increase, improve and preserve the supply of low- and moderate-income housing within the Agency's territorial jurisdiction.

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Agency, like other units of state and local government, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Agency are classified as governmental funds.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, government fund financial statements focus on near-term *inflows* and *outflows* of *spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating the Agency's financial resources that are available in the near future to finance the various activities.

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Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Agency maintains two individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the capital projects fund and the debt service fund.

The Agency adopts an annual appropriated budget for all governmental funds. A budgetary comparison statement has been provided for governmental funds as supplementary information to demonstrate compliance with this budget.

Notes to Combined Financial Statements

The notes provide narrative information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information

In addition to the combined financial statements and accompanying notes, this report also includes other supplementary information relating to the Agency's fund financial statements and budgetary comparison to actual expenditures for each of the redevelopment project areas. A combining schedule of changes in long-term debt has been included in this report.

Government-wide Financial Analysis

The Agency presents its financial statements in accordance with GASB Statement No. 34, and its related pronouncements, with the focus on the analysis of the current fiscal year's net assets and changes in net assets.

Analysis of Net Assets

Net assets may serve, over time, as a useful indicator of a government's financial position. At September 30, 2006 the Agency's liabilities exceeded its assets by \$159,807,000. Of this amount, \$1,244,000 is invested in capital assets, net of related debt and \$156,179,000 represents restricted net assets for capital projects, low- and moderate-income housing activities and debt service. The Agency's deficit is intended to be relieved from future Agency revenues. The Agency's deficit is caused from the issuance of long-term debt instead of capital contributions. This is primarily due to the nature of redevelopment financing, whereby the Agency issues bonds or incurs long-term debt to finance a substantial portion of its redevelopment activities which include land acquisition, housing, public parking, commercial and retail projects, community development activities and others. In some cases, assets may be transferred to the City of Long Beach; however,

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the debt remains with the Agency. The Agency also provides "gap" financing in other types of redevelopment activities; any equity assumed in these projects is usually significantly less than the underlying expenditures. Redevelopment activities are designed to alleviate urban blight. Redevelopment activities often improve property values and as a result generate additional tax increment to service the Agency's debt and finance additional projects.

The following table summarizes the Agency's net assets (net deficit) as of September 30, 2006, with comparative figures for 2005 (in thousands):

	Governmental Activities		
	2006	2005	% Change
ASSETS			
Current and other assets	\$ 353,796	\$ 356,996	(0.90)
Capital assets	13,802	13,802	-
Total assets	<u>367,598</u>	<u>370,798</u>	<u>(0.86)</u>
LIABILITIES			
Current and other liabilities	34,971	43,987	(20.50)
Noncurrent liabilities	492,434	499,355	(1.39)
Total liabilities	<u>527,405</u>	<u>543,342</u>	<u>(2.93)</u>
NET ASSETS			
Invested in capital assets	1,244	13,802	(90.99)
Restricted net assets	156,179	214,622	(27.23)
Unrestricted deficit	(317,230)	(400,968)	(20.88)
Total deficit	<u>\$ (159,807)</u>	<u>\$ (172,544)</u>	<u>(7.38)</u>

Analysis of Changes in Net Assets

During fiscal year 2006, governmental activities decreased the deficit by \$12,737,000 from the prior year to \$159,807,000. Key elements of the governmental activities are as follows:

Incremental property tax revenues are the Agency's major source of funding for redevelopment activities. For the year ended September 30, 2006, the Agency recognized \$63,406,000 in tax increment revenues. This represents 77% of the total revenues and transfers of the governmental activities of \$82,593,000. The increase in current year total revenues of 42% is due to the increase in tax increment revenues resulting from higher assessed valuation of properties within the West Long Beach Industrial, Central Long Beach and North Long Beach Project Areas; interest income; and other revenues. The increase in interest income is mainly on pooled cash and cash with fiscal agents which increased by \$576,000 and \$4,809,000 respectively. The increase in other revenues is mainly due to the transfers from Low- and Moderate-Income Housing Fund which increased by \$2,563,000 and land reconveyance of \$3,419,000 reported as a reduction in general revenues of the prior year.

Community and cultural expenditures totaled \$48,978,000 or 70% of the total expenses of the governmental activities of \$69,856,000. The 45% increase in community and cultural

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expenditures is mainly due to the increases in relocation payments/benefits, other construction services, property tax statutory pass-throughs, and property operation/management. The 33% increase in interest on long-term debt is mainly on tax allocation bonds.

Changes in Net Assets
Years Ended September 30
(In Thousands)

	Governmental Activities		
	2006	2005	% Change
REVENUES			
Program revenues:			
Operating grants and contributions	\$ 62	\$ 210	(70.48)
Charges for services	3,805	2,942	29.33
General revenues:			
Incremental property taxes	63,406	50,977	24.38
Interest income	12,106	6,623	82.79
Other	3,214	(2,474)	229.91
Total revenues	<u>82,593</u>	<u>58,278</u>	<u>41.72</u>
EXPENDITURES			
Program expenses:			
General government	268	222	20.72
Community/ economic development	48,978	33,850	44.69
Interest in long-term debt	20,610	15,470	33.23
Total expenses	<u>69,856</u>	<u>49,542</u>	<u>41.00</u>
Change in net asset	12,737	8,736	45.80
Deficit, October 1	(172,544)	(181,280)	(4.82)
Deficit, September 30	<u><u>\$ (159,807)</u></u>	<u><u>\$ (172,544)</u></u>	<u><u>(7.38)</u></u>

Community and economic development expenses shown on the Statement of Activities relate to activities intended to relieve urban blight and payments to other government entities. These expenses include costs for the acquisition and development of sites for needed public improvements such as libraries, parks, and street improvements. Other activities to remove blight include the assembly of sites for the private development of housing, commercial and retail facilities. The Agency is also required by Community Redevelopment Law to provide statutory pass-through payments to other government entities.

Financial Analysis of the Agency's Governmental Funds

As noted earlier, the Agency uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the Agency's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Agency's financing requirements. In particular, the fund balance serves as a

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useful measure of the Agency's net resource available for spending at the end of the fiscal year.

At September 30, 2006, the Agency's governmental funds reported a combined accumulated ending fund balance of \$328,520,000, an increase of \$5,685,000 over the prior fiscal year of \$322,835,000. This amount consists of fund balance reserved for debt service, land held for resale, future projects, long-term receivables and encumbrances. The portion of the fund balance that is available for spending has been appropriated in fiscal year 2007.

Capital Projects Fund - The Capital Projects Fund is used to account for redevelopment expenditures from tax increment, bond proceeds, federal grants and project area program income. The Capital Projects Fund is the Agency's principal fund. The accumulated fund balance at September 30, 2006 aggregated \$166,941,000. The Capital Projects Fund fund balance of \$102,451,000 at September 30, 2005 increased by \$64,490,000 due to increased property tax increment revenues transferred to this fund from the Agency's Debt Service Fund and transfers received from the City to this fund for the acquisition of real property for housing development projects.

Debt Service Fund - The Debt Service Fund is used to accumulate resources to pay principal and interest and other costs related to the Agency's long-term debt. At September 30, 2006, the Debt Service Fund had a total fund balance of \$161,579,000, of which \$48,534,000 was reserved for debt service and \$113,045,000 for redevelopment projects. The net decrease in fund balance over the prior year of \$58,805,000 is primarily due to interfund transfers made to the Capital Projects Fund for redevelopment projects and to the City to supplement the debt service for bonds.

Governmental Fund Budgetary Highlights

A comparison between the initial budget and the final amended budget for the Agency's governmental funds shows a net increase in expenditures from \$199,023,000 to \$236,020,000, or \$36,997,000. The increase is mainly due to the anticipated expenditures for project improvement costs, land acquisition, debt issuance costs and debt service payments.

The Agency's governmental funds combined positive ending fund balance variance of \$128,448,000 is committed to be spent in various project areas in the next fiscal year. The budget variances by project area are summarized under the Supplementary Financial Information sections of this report.

Capital Assets and Debt Administration

Capital Assets

The Agency's investments in capital assets for its governmental activities as of September 30, 2006 is comprised of land totaling \$13,802,000. Additional information on the Agency's capital assets can be found in Note 5 to the combined financial statements.

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Long-Term Liabilities

At September 30, 2006, the Statement of Net Assets included the Agency's long-term liabilities in the amount of \$500,246,000, which includes the current portion of bond indebtedness and is net of unamortized bond discount. This is summarized as follows in the table below (in thousands).

Agency's Long-Term Debt	
Tax allocation bonds	\$ 347,881
Notes payable	3,592
Advances from the City of Long Beach	131,536
Advances from Low- and Moderate-Income Housing Fund	17,237
Total	<u>\$ 500,246</u>

The Agency's total bonded indebtedness at September 30, 2006, was \$347,881,000. The bonds are secured solely by specified revenue sources (i.e., property tax increment).

In February 2006, the Agency issued \$35,045,000 in Long Beach Bond Finance Authority Revenue Bonds 2005 Series C bonds to purchase a portion of the outstanding principal amount of Downtown Redevelopment Project 2002 Subordinate Tax Allocation Bonds, effectuate a purchase on August 1, 2012 of a portion of the outstanding principal amount of the North Long Beach Project 2002 Tax Allocation Bonds, finance certain Downtown Project Area redevelopment projects, pay the financial guaranty insurance premiums and pay issuance costs of the bonds. (See Note 8 for additional details).

Additional information on the long-term liabilities can be found in Notes 7, 8 and 9 of the combined financial statements.

As of September 5, 2004, Senate Bill 1096 amended Section 33333.6 of the Health and Safety Code to allow City Council, under certain circumstances, to extend by one year the time limit on the effectiveness of a redevelopment plan and the time limit on the receipt of tax increment and the payment of indebtedness to make up for required Education Revenue Augmentation Fund (ERAF) payments made in fiscal years 2005 and 2006. On January 18, 2005, the City Council approved extensions for the West Beach, Downtown and Poly High Project Areas. The time limits for the project areas as of September 30, 2006 are summarized in the following table:

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<u>Project Area</u>	<u>Date Adopted</u>	<u>Time Limit for Incurring Indebtedness</u>	<u>Termination Date</u>	<u>Time Limit For Repayment of Indebtedness</u>
Central Long Beach	03/06/2001	03/06/2021	03/06/2032	03/06/2047
Downtown	06/17/1975	01/01/2004	06/17/2017	06/17/2027
Los Altos	12/10/1991	12/10/2011	12/10/2032	12/10/2042
Poly High	04/03/1973	None	04/03/2015	04/03/2025
West Beach	07/21/1964	None	01/01/2011	01/02/2021
West Long Beach Industrial	07/01/1975	None	07/01/2015	07/01/2025
North Long Beach	07/16/1996	07/16/2016	07/16/2027	07/16/2042

Future Outlook - Economic Factors and Next Year's Budget

- Rising property values in Long Beach have increased tax increment revenues in the North Long Beach and Central Long Beach Project Areas. New residential and retail developments in the Downtown Project Area have also increased its tax increment revenues.
- The State passed legislation requiring redevelopment agencies to shift, in aggregate, \$250,000,000 in property tax revenues during the fiscal years 2005 and 2006 to the Education Revenue Augmentation Fund (ERAF) for K-12 schools and community colleges. The Agency remitted \$2,901,000 into ERAF in May 2005 and \$2,921,000 in May 2006. The Agency will not be required to make payment related to ERAF in fiscal year 2007, allowing more funds available for the elimination of blight.
- The requirements for the redevelopment agencies to provide payments to ERAF in fiscal year 2005 and 2006 are contained in Senate Bill 1096 (SB1096). The Redevelopment Agency Board and City Council used the legislation to extend the debt repayment and redevelopment plan effectiveness time limits for the West Beach, Downtown, and Poly High Project Areas in fiscal year 2005 as a result of the 2005 payment. The Redevelopment Agency Board intends to use the legislation to extend the debt repayment and redevelopment plan effectiveness time limits for the West Beach and Poly High Project Areas in fiscal year 2007 as a result of the fiscal year 2006 ERAF payment. Extending the limits gives the Redevelopment Agency additional time to implement projects and programs to remove blight in the aforementioned project areas.

All of the above economic factors were considered in preparing the Agency's budget for fiscal year 2007.

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Request for Information

This financial report is designed to provide a general overview of the Agency's finances for all those with an interest in the Agency's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to:

City of Long Beach
Department of Financial Management
333 W. Ocean Boulevard, 6th Floor
Long Beach, California 90802

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COMBINED FINANCIAL STATEMENTS

Redevelopment Agency of the City of Long Beach
(A Component Financial Reporting Unit of the City of Long Beach, California)
Combined Statement of Net Assets (Deficit)
September 30, 2006
(In Thousands)

	Governmental Activities		
	Governmental Activities	Low- and Moderate-Income Housing Fund	Total
ASSETS			
Current assets:			
Pooled cash and cash equivalents	\$ 39,680	\$ 22,201	\$ 61,881
Non-pooled cash and cash equivalents	141,959	1,040	142,999
Interest receivable	2,601	10	2,611
Accounts and loans receivables	360	1	361
Due from the City of Long Beach	303	-	303
Due from other governments	16	-	16
Other assets	23,715	-	23,715
Land held for resale	116,505	995	117,500
Noncurrent assets:			
Investments	10,000	-	10,000
Advances to the City of Long Beach	14,591	322	14,913
Advances to Housing Development Company		630	630
Advances to the Redevelopment Agency	-	17,237	17,237
Other non-current receivables	4,066	17,434	21,500
Capital assets			
Land and other assets not being depreciated	13,802	815	14,617
Buildings, improvements and equipment net of accumulated depreciation	-	893	893
Other assets	-	1	1
Total assets	<u>367,598</u>	<u>61,579</u>	<u>429,177</u>
LIABILITIES			
Current liabilities:			
Accounts and vouchers payable	2,451	653	3,104
Accrued wages and other benefits	62	36	98
Due to the City of Long Beach	3,370	18	3,388
Accrued interest payable	4,667	413	5,080
Deferred revenue, credits and other payable	16,609	16	16,625
Bonds payable within one year	7,812	-	7,812
Noncurrent liabilities:			
Advances from the City of Long Beach	131,536	-	131,536
Advances from Low- and Moderate-Income Housing Fund	17,237	-	17,237
Bonds payable	340,069	-	340,069
Other long-term obligations	3,592	1,015	4,607
Total liabilities	<u>527,405</u>	<u>2,151</u>	<u>529,556</u>
NET ASSETS (DEFICIT)			
Invested in capital assets,			
Net of related debt	1,244	693	1,937
Restricted for:			
Debt service	43,866	-	43,866
Operations and maintenance	-	31	31
Capital/Housing projects	112,313	1,040	113,353
Unrestricted (deficit)	(317,230)	57,664	(259,566)
Total net assets (deficit)	<u>\$ (159,807)</u>	<u>\$ 59,428</u>	<u>\$ (100,379)</u>

The notes to the combined financial statements are an integral part of this statement.

Redevelopment Agency of the City of Long Beach
(A Component Financial Reporting Unit of the City of Long Beach, California)
Combined Statement of Activities
Year Ended September 30, 2006
(In Thousands)

Governmental Activities						
				Net (Expense) and Changes in Net Assets	Total	
Program Revenues						
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities Total	Low-and Moderate-Income Housing Fund
Primary Government:						
General government	\$ 268	\$ -	\$ -	\$ -	\$ (268)	\$ -
Community and cultural	48,978	3,805	62	-	(45,111)	-
Interest on long-term debt	20,610	-	-	-	(20,610)	-
Total governmental activities	<u>69,856</u>	<u>3,805</u>	<u>62</u>	<u>-</u>	<u>(65,989)</u>	<u>-</u>
Low-and moderate-income housing fund	<u>\$ 2,136</u>	<u>\$ 598</u>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>(1,538)</u>
General revenues						
Taxes:						
Property tax increment					63,406	15,852
Other					3,634	-
Unrestricted investment earnings					12,106	902
Gain on sale of land held for resale					1,001	-
Transfers to/from the Redevelopment Agency					5,741	(5,741)
Transfers to/from the City					(7,162)	2
Total general revenues and transfers					<u>78,726</u>	<u>11,015</u>
Change in net assets					12,737	9,477
Net assets (deficit) - October 1					(172,544)	49,951
Net assets (deficit) - September 30					<u>\$ (159,807)</u>	<u>\$ 59,428</u>
						<u>\$ (100,379)</u>

The notes to the combined financial statements are an integral part of this statement.

Redevelopment Agency of the City of Long Beach
(A Component Financial Reporting Unit of the City of Long Beach, California)
Combined Balance Sheet - Governmental Funds
September 30, 2006
(In Thousands)

	Capital Projects Funds	Debt Service Funds	Sub-Total	Low-and Moderate-Income Housing Fund	Total
ASSETS					
Pooled cash	\$ 31,470	\$ 8,210	\$ 39,680	\$ 22,201	\$ 61,881
Non-pooled cash and cash equivalents	1,388	140,571	141,959	1,040	142,999
Accounts and loans receivable	2	358	360	1	361
Interest receivable on investments	-	2,601	2,601	10	2,611
Receivables from other governments	16	-	16	-	16
Investments	-	10,000	10,000	-	10,000
Due from the City of Long Beach	303	-	303	-	303
Advances to the City of Long Beach	-	14,591	14,591	-	14,591
Land held for resale	116,505	-	116,505	995	117,500
Other assets	23,683	32	23,715	1	23,716
Long-term receivables	4,066	-	4,066	17,434	21,500
TOTAL ASSETS	\$ 177,433	\$ 176,363	\$ 353,796	\$ 41,682	\$ 395,478
LIABILITIES					
Vouchers payable	\$ 659	\$ -	\$ 659	\$ 653	\$ 1,312
Accounts payable	1,613	179	1,792	-	1,792
Accrued wages payable	62	-	62	36	98
Collections held in trust	605	-	605	15	620
Deferred revenue	4,197	14,591	18,788	17,435	36,223
Due to other funds	3,356	14	3,370	18	3,388
TOTAL LIABILITIES	10,492	14,784	25,276	18,157	43,433
FUND BALANCE					
Reserved:					
Land held for resale	116,505	-	116,505	995	117,500
Future projects	47,792	113,045	160,837	22,499	183,336
Debt service	-	48,534	48,534	-	48,534
Long-term receivables	1,912	-	1,912	-	1,912
Encumbrances	732	-	732	-	732
Other	-	-	-	31	31
TOTAL FUND BALANCE	166,941	161,579	328,520	23,525	352,045
TOTAL LIABILITIES, AND FUND BALANCE	\$ 177,433	\$ 176,363	\$ 353,796	\$ 41,682	\$ 395,478

The notes to the combined financial statements are an integral part of this statement.

Redevelopment Agency of the City of Long Beach
(A Component Financial Reporting Unit of the City of Long Beach, California)
Reconciliation of Combined Balance Sheet of Governmental Fund Balance to the
Statement of Net Assets (Deficit)
September 30, 2006
(In Thousands)

	<u>Capital Projects/Debt Service Funds</u>	<u>Low- and Moderate-Income Housing Fund</u>
Amounts reported for governmental activities in the statement of net assets (deficit) are different because:		
Total governmental fund balance	\$ 328,520	\$ 23,525
Capital assets used in the governmental activities are not financial resources and, therefore, are not reported in the funds.	13,802	1,708
Advances due from/to the primary government is considered to be external activity that is reported only in the government-wide financial statements.	(148,773)	18,189
Because the focus of governmental funds is short-term financing, some assets will not be available to pay for current period expenditures. Those assets are offset by deferred revenue in the funds.	2,784	17,434
Governmental long-term liabilities are not due and payable in the current period, and therefore, are not reported in the funds.	<u>(356,140)</u>	<u>(1,428)</u>
Net assets (deficit) of governmental activities	<u>\$ (159,807)</u>	<u>\$ 59,428</u>

The notes to the combined financial statements are an integral part of this statement.

Redevelopment Agency of the City of Long Beach
(A Component Financial Reporting Unit of the City of Long Beach, California)
Combined Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds
Year Ended September 30, 2006
(In Thousands)

	Capital Projects Funds	Debt Service Funds	Sub-Total	Low-and Moderate-Income Housing Fund	Total
REVENUES					
Property tax increment	\$ -	\$ 63,406	\$ 63,406	\$ 15,852	\$ 79,258
Interest income	1,044	11,063	12,107	940	13,047
Rental income	1,795	-	1,795	80	1,875
Transient occupancy tax	-	3,634	3,634	-	3,634
Gain on sale of land held for resale	716	-	716	-	716
Other income	1,708	677	2,385	1,022	3,407
TOTAL REVENUES	5,263	78,780	84,043	17,894	101,937
EXPENDITURES					
Administrative costs	6,177	992	7,169	1,510	8,679
Professional services	514	-	514	191	705
Planning, survey and design	1,539	-	1,539	-	1,539
Acquisition expense	1,760	-	1,760	7	1,767
Operation of acquired property	4,153	-	4,153	109	4,262
Relocation costs	920	-	920	-	920
Relocation payments	5,661	-	5,661	-	5,661
Site Clearance costs	101	-	101	-	101
Project improvement/construction costs	11,674	-	11,674	169	11,843
Disposal costs	9	-	9	-	9
Interdepartmental charges	-	-	-	408	408
Rehabilitation grants and loans	1,150	-	1,150	6,780	7,930
Furniture, fixture and equipment	6	-	6	-	6
Pass-through charges	220	14,302	14,522	-	14,522
Debt issuance costs	-	1,165	1,165	-	1,165
Debt service payments:					
Bonds and notes payable - principal	-	7,430	7,430	-	7,430
City/County advances and loans - principal	1,264	-	1,264	-	1,264
Interest	500	18,985	19,485	-	19,485
TOTAL EXPENDITURES	35,648	42,874	78,522	9,174	87,696
Excess (deficiency) of Revenues over Expenditures	(30,385)	35,906	5,521	8,720	14,241
OTHER FINANCING SOURCES AND (USES)					
Other deferred payments	220	-	220	-	220
Proceeds from issuance of long-term debt	-	35,045	35,045	-	35,045
Bond Premium	-	2,455	2,455	-	2,455
Payment to refunded bond escrow agent	-	(36,135)	(36,135)	-	(36,135)
Transfer to Capital Projects from Debt Service	95,253	(95,253)	-	-	-
Transfer to/from Redevelopment Agency	2,330	3,411	5,741	(5,741)	-
Transfers to the City	(2,928)	(4,234)	(7,162)	-	(7,162)
Transfers from the City	-	-	-	2	2
TOTAL OTHER FINANCING SOURCES (USES)	94,875	(94,711)	164	(5,739)	(5,575)
Excess (deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Sources (Uses)	64,490	(58,805)	5,685	2,981	8,666
Fund Balance - October 1	102,451	220,384	322,835	20,544	343,379
FUND BALANCE SEPTEMBER 30	\$ 166,941	\$ 161,579	\$328,520	\$ 23,525	\$ 352,045

The notes to the combined financial statements are an integral part of this statement.

Redevelopment Agency of the City of Long Beach
(A Component Financial Reporting Unit of the City of Long Beach, California)
Reconciliation of Combined Statement of Revenues, Expenditures, and
Changes in Fund Balance of Governmental Funds
to the Statement of Activities
Year Ended September 30, 2006
(In Thousands)

	<u>Capital Projects/Debt Service Funds</u>	<u>Low-and Moderate-Income Housing Fund</u>
Amounts reported for governmental activities in the statement of activities are different because:		
Excess of revenue and other sources over expenditures and other uses - total governmental funds.	\$ 5,685	\$ 2,981
Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful life and reported as depreciation expense. This is the depreciation amount in the current period.	(1)	(56)
The Agency records advances from/to the primary government only in government-wide financial statements. Therefore, interest and principal thereon are eliminated in the governmental funds.	(443)	970
Revenue in the statement of activities that do not provide current financial resources are not reported as revenue in the governmental funds.	285	-
Governmental funds report expenditures pertaining to the establishment of certain long-term loans made. Payments on these long-term receivables are recorded as revenue in the governmental funds. These deferred credits are not reported on the statement of net assets and, therefore, the corresponding net expense is not reported on the statement of activities.	-	5,598
The issuance of long term debt (for example, bonds and leases) provides current financial resources to governmental funds, while the payment of the principal of long-term debt consumes the current financial resources of the governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	7,750	-
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(539)	(16)
Change in net assets in governmental activities.	<u>\$ 12,737</u>	<u>\$ 9,477</u>

The notes to the combined financial statements are an integral part of this statement.

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Notes to Combined Financial Statements
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Note 1 - Description of Entity, Funds and Summary of Significant Accounting Policies

Reporting Entity

The Redevelopment Agency of the City of Long Beach (Agency) was established by action of the City Council in 1961 under provisions of State Law. The Agency is an independent public agency governed by a board comprised of seven citizens who are appointed by the Mayor and confirmed by the City Council. The City Council approves the Agency's annual budget and subsequent changes for the year. The City Council also approves all decisions that impact the Agency's fiscal operations, such as the determination of the redevelopment project areas and changes thereto, issuance of bonds and sale of properties. The City has financial oversight responsibility over the Agency and provides all staff, treasury management and investment analysis, facilities and administrative services to conduct the Agency's daily operations.

The Agency is a component financial reporting unit of the City of Long Beach, California (City). In accordance with the Governmental Accounting Standards Board Statement No. 14, the Agency's financial activities are included in the City's Comprehensive Annual Financial Report as a blended component unit.

The State of California Health and Safety Code Section 33080.1 requires every redevelopment agency to submit an annual audit of the financial statements of the agency which presents the results of the operations and financial position of the agency, including all financial activities with moneys required to be held in a separate Low- and Moderate-Income Housing Fund pursuant to Section 33334.3. As such, the Agency has included in the accompanying combined financial statements the Low- and Moderate-Income Housing Fund which represents funds recorded within the City of Long Beach and the Long Beach Housing Development Company for the purpose of recording the Agency's 20% set aside tax increment revenues that the State of California Health and Safety Code Section 33334.2 requires to be used to increase, improve and preserve the supply of low- and moderate-income housing within the Agency's territorial jurisdiction.

Governmental Funds

The accounts of the Agency are organized and operated on the basis of separate funds, each of which is defined as a separate fiscal and accounting entity with a self-balancing set of accounts that comprise its assets, liabilities, fund equity, revenues and expenditures.

Capital Projects Funds – were set up to account for financial resources to be used for land acquisition, relocation, demolition, public improvements, and sale of properties within the redevelopment project areas in accordance with the California Redevelopment Law. Redevelopment projects are financed with property tax increment funds, developers' contributions, grant funds, loans and operating transfers from the City, and bond proceeds.

Debt Service Funds – were set up to account for the accumulation of resources for, and the payment of, long-term debt principal and interest and other related costs, primarily from property tax increment revenues.

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Low- and Moderate-Income Housing Fund

Low-and Moderate-Income Housing Fund – was set up to account primarily for the 20% tax increment housing set-aside revenue, used to provide housing for low- and moderate-income households, as required under California Redevelopment Law Section 33334.3.

Basis of Accounting and Measurement Focus and Financial Statement Presentation

The government-wide financial statements (i.e., the statement of net assets (deficit) and the statement of activities) are reported using the accrual basis of accounting and economic resources measurement focus. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied.

In the statement of net assets (deficit), the amounts paid to acquire capital assets are capitalized as assets, rather than reported as expenditures. Proceeds of long-term debt are recorded as liabilities, rather than as other financing sources. Amounts paid to reduce long-term indebtedness are reported as reductions of the related liability, rather than as expenditures.

In the statement of activities, expenses are directly identified with a specific function or segment and are offset by program revenues. Taxes and other resources not appropriately included among program income are reported as general revenues.

The governmental fund financial statements are reported using the modified accrual basis of accounting and the current financial resources measurement focus. Under the modified accrual basis of accounting, revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The Agency considers revenues to be available if they are collected within one year at the end of the current fiscal period, with the exception of property taxes which are considered available if collected within 60 days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred, as under accrual accounting, other than debt service expenditures. The matured principal and accrued interest on long-term debt are recorded when payment is due.

Generally, only current assets and current liabilities are included on the governmental fund balance sheets. However, non-current portions of long-term receivables related to governmental funds are also reported on the balance sheets and are offset by deferred revenue or fund balance reserve accounts. Statements of revenues, expenditures, and changes in fund balances (deficit) for governmental funds generally present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

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Pooled Cash, Cash Equivalents and Investments

In order to enhance investment return, the Agency pools its available cash with that of the City for investment purposes except for the funds held by the outside fiscal agents under the provisions of bond indentures. The cash management pool is used essentially as a demand deposit account by various funds; accordingly, the City has defined Cash and Cash Equivalents as demand deposits plus all investments maintained in the cash management pool, regardless of maturity period. Investment decisions are made by the City Treasurer in accordance with the City's investment policy. Interest is allocated to the Agency based on the relationship of its daily cash balances to the total pooled cash and investments. Pooled cash and investments are stated at fair value at September 30, 2006.

Long-Term Receivables

In the government-wide financial statements, the Agency's loans or long-term receivables are reported net of an allowance for uncollectible accounts. In the fund financial statements, these loans are shown in the balance sheet with an offset to a deferred revenue account or a reservation of fund balance. In the fund financial statements, loans are not available spendable resources and have been recorded as expenditures when the loan was disbursed. Repayments of principal and interest were recorded as revenues in the period received.

Long-Term Obligations

In the government-wide financial statements, long-term debt and other liabilities are reported as liabilities in the statement of net assets (deficit). Initial-issue bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the unamortized portion of applicable premium, discount or deferred amount on refunding. Amortization of bond premiums or discounts and deferred amounts on refunding are included in interest expense.

In the fund financial statements, governmental fund types recognize bond premiums, discounts and issuance costs during the period issued. The face amount of the debt is reported as other financing sources. Premiums received are reported as other financing sources, while discounts are reported as other financing uses. Bond issuance costs are reported as debt service expenditures, whether or not withheld from the actual bond proceeds.

Land Held for Resale

To aid in the elimination of blighted areas within the project areas, the Agency acquires selected parcels of land and makes such sites suitable for sale to recognized developers. The purchase price of the land acquired is capitalized as "Land Held for Resale" and the fund balance is reserved for the investment in the land.

Purchased land is recorded at the lower of cost or market value (when a definite market value can be determined) excluding demolition and relocation costs, which are considered by the Agency to be expenditures in the year incurred.

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Capital Assets

The Agency has adopted the City's policy regarding recordation of capital assets, which is defined as assets with initial individual costs of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical costs.

Capital assets are depreciated on a straight-line basis, over the estimated useful lives of the assets as follows:

Land Improvements	15-35 years
Buildings	20-50 years
Machinery and Equipment	5-20 years
Office Furniture, Fixtures and Equipment	3-20 years

Net Assets and Fund Equity

In the government-wide financial statements, net assets are reported in three categories: net assets invested in capital assets, net of related debt; restricted net assets; and, unrestricted deficit. Restricted net assets represent net assets restricted by parties outside of the Agency (such as investors, grantors, contributors, laws and regulations of other governments) and include unspent proceeds of bonds issued to acquire or construct capital assets. The Agency's other restricted net assets are temporarily restricted (ultimately expendable assets). All other net assets are considered unrestricted.

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not readily available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent Redevelopment Agency Board actions or policies that are subject to change.

Property Tax Increment Revenues

Property tax increment represents the property taxes paid on the increase in assessed property values that result from redevelopment. Tax increment revenue up to the amount necessary to make Agency debt payments reverts to the Agency for the life of the redevelopment project area or until the time limit for repayment of indebtedness established by State law.

Property Tax Calendar

Under the State Constitution, the property tax rate is limited to 1% of assessed value, but may be adjusted for specific voter-approved indebtedness. Property taxes are levied by the Los Angeles County (County) Tax Assessor and shared among all other local taxing authorities within the City. Accordingly, the County collects property taxes and distributes such taxes on the basis of the taxing authorities' tax rate percentages, allowing for such adjustments as may be authorized for voter-approved debt. Secured property taxes are levied during September of every year and become a lien on real property on January 1 preceding the fiscal year for which taxes are levied. These tax payments can be made in two equal installments; the first is due November 1 and delinquent with penalties after December 10; the second is due February 1 and delinquent with penalties after April 10.

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Budgetary Principles

The Agency is required to adopt an annual budget on or before September 30 for the ensuing fiscal year for all funds. From the effective date of the budget, the amounts stated therein as proposed expenditures become appropriations to the funds. During the fiscal year, the Board may amend its adopted budget by motion and subsequent approval by the City Council. The Agency's executive director may transfer appropriations from one program, activity, or object to another within the same fund type. All appropriations lapse at the end of the fiscal year to the extent they have not been expended or encumbered.

Accounting for Encumbrances

The Agency utilizes an encumbrance system of accounting wherein encumbrances outstanding at year end are not reported as expenditures, but are reported as a reservation of fund balance available for subsequent year expenditures based on the encumbered appropriation authority carried over to the next fiscal year.

Personnel

The Agency is supported by employees of the City and all employee-related costs are accounted for in the City's financial systems.

Implementation of New Accounting Standards

For the fiscal year ended September 30, 2006, the Agency adopted new accounting standards in order to conform to the following Government Accounting Standards Board (GASB) Statements:

GASB Statement No. 42 Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries establishes accounting and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This Statement also clarifies and establishes accounting requirements for insurance recoveries.

GASB Statement No. 46 Net Assets Restricted by Enabling Legislation addresses selected issues and amends GASB Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments. The Statement enhances the usefulness and comparability of new asset information and clarifies the meaning of legal enforceability. The Statement also specified accounting and financial reporting requirements for restricted net assets.

GASB Statement No. 47 Accounting for Termination Benefits provides accounting guidance for state and local governmental employers regarding benefits (such as early-retirement incentives and severance benefits) provided to employees that are terminated. The Statement requires recognition of the cost of involuntary termination benefits in the period in which a government becomes obligated to provide benefits to terminated employees.

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Estimates

The preparation of the Agency's combined financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 2 - Cash and Investments

The Agency pools its cash and investments with other City funds maintained by the City Treasurer. The Agency's individual cash deposits and investments within this pool cannot be specifically identified. Interest income earned on pooled cash and investments is allocated monthly to the various pool participants based on their average daily cash balances.

As a component financial reporting unit of the City, the Agency is authorized to participate in investments in obligations issued or guaranteed by the Federal Government, its agencies and instrumentalities, as well as in commercial paper rated A-1 by Standard and Poor's Corporation or P-1 by Moody's Commercial Paper Record, bankers' acceptances, repurchase agreements, reverse repurchase agreements, bank certificates of deposit, the State Treasurer's Local Agency Investment Fund, and shares of beneficial interest (mutual funds) issued by diversified management companies in accordance with the City's general investment policy.

Cash and Investments

The Agency's cash and investments are maintained by the City Treasurer and are pooled with other City funds and investments to enhance the investment returns for these funds. Interest income earned on pooled cash and investments is allocated monthly to the various participating entities based on their average daily cash balances. The City's bank deposits are either covered by appropriate Federal insurance, or are collateralized in accordance with the California Government Code. Pooled cash and investments for each fund type are included in the City's Comprehensive Annual Financial Report, Statement of Net Assets under the caption entitled "Pooled Cash and Cash Equivalents".

Cash with Fiscal Agents

The Agency's funds are also held by independent fiscal agents. These funds are pledged to the payment of outstanding bonds and project costs eligible under the bond indenture for each project area related to the Tax Allocation Bonds 1992, 2002 Series A and B, and 2005 Series A, B and C issuance. These funds are reserved in the Debt Service Fund amounting to \$141,953,000. Monies held by fiscal agents, unless otherwise required by statute, may be invested in accordance with the underlying bond indentures specifying the types of investments the Agency's fiscal agents may make. These underlying indentures are generally more restrictive than the City's general investment policy. Additional types of investments, not permitted by the City's general investment policy, are not authorized.

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Cash and Investments as of September 30, 2006 are classified in the Agency's combined financial statements as follows (in thousands):

Statement of net assets:	
Cash and investments in City pool	\$ 61,881
Cash and investments held by bond trustee	<u>152,999</u>
Total cash and investments	<u>\$ 214,880</u>

Investments Authorized by the California Government code and the City's Investment Policy

The following table identifies the investment types that are authorized for the City by the City's investment policy. The table also identifies certain provisions of the city's investment policy that address interest rate risk, credit risk, and concentration of credit risk. This table does not address debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the City, rather than the general provision of the California Government Code or the City's investment policy.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Bonds issued by the City	5 years *	30%	None
U.S. Treasury notes, bonds, or bills	5 years *	None	None
Registered state warrants or treasury notes or bonds of the State of California	5 years *	30%	None
Local Agency Bonds	5 years *	30%	None
Federal agency securities	5 years *	None	None
Banker's Acceptances	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years *	30%	10%
Time Certificates of Deposit	5 years *	100%	10%
Repurchase Agreements	90 days	100%	None
Reverse Repurchase Agreements	92 days	20%	None
Securities Lending Program	92 days	20%	None
Medium-Term Notes	5 years *	30%	10%
Money Market Funds	N/A	20%	10%
Local Agency Investment Fund (LAIF)	N/A	None	\$40 million per account
Asset-backed Securities	5 years	20%	None
Mortgage-backed Securities	5 years	20%	None

* Maximum maturity of five (5) years unless a longer maturity is approved by the City Council, either specifically or as part of an investment program, at least three (3) months prior to purchase.

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Investments Authorized by Debt Agreements

Investment of debt proceeds held by bond trustee are governed by provisions of the debt agreements.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments, and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming closer to maturity evenly over time as necessary to provide cash flow and liquidity needed for operations.

The following schedule indicates the interest rate risk of the City's investments as of September 30, 2006 (in thousands):

<u>City Pooled Investment Type</u>		<u>Weighted Average Maturity (in years)</u>
Inter-Department Loan (Health Savrs)	\$ 3,297	12.600
U.S. Treasury Notes	214,467	1.542
Federal agency securities	1,042,876	1.572
Medium-Term Notes	33,464	1.609
Short-term Commercial Paper	132,731	0.013
Local Agency Investment Fund (LAIF)	2,921	0.003
Subtotal City Pool	1,429,756	
Cash on Hand	26,811	
Outstanding Checks	(18,043)	
Total City Pool	<u>\$ 1,438,524</u>	

The Agency pooled cash and investments amount of \$61,881,000 is 4.30% of the City's pooled cash and investments of \$1,438,524,000.

<u>Agency Non-Pooled Investment Type</u>		<u>Weighted Average Maturity (in years)</u>
Guaranteed Investment Contracts	\$ 122,684	-
Money Market Funds	20,315	-
Time Certificates of Deposit	10,000	1.00
Total held by Bond Trustee	<u>\$ 152,999</u>	

Investments with Fair Values Highly Sensitive to Investment Risk

The City had no investments with values that were highly sensitive to investment risk as of September 30, 2006.

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Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the California Government Code, the City's investment policy, and the actual rating as of year end for each investment type (in thousands):

City Pooled Investment Type		Rating as of Year End					
		Minimum Legal Rating	Not Required To Be Rated	A-1+	A-1	AAA	AA-
Inter-Department Loan (Health Savrs)	\$ 3,297	N/A	\$ 3,297	\$ -	\$ -	\$ -	\$ -
U.S. Treasury Notes	214,467	N/A	214,467	-	-	-	-
Federal agency securities	1,042,876	N/A	-	-	-	1,042,876	-
Medium-Term Notes	33,464	A	-	-	-	28,445	5,019
Short-term Commercial Paper	132,731	N/A	-	75,773	56,958	-	-
Local Agency Investment Fund (LAIF)	2,921	N/A	2,921	-	-	-	-
Subtotal City Pool	1,429,756		220,685	75,773	56,958	1,071,321	5,019
Cash on Hand	26,811		-	-	-	-	-
Outstanding Checks	(18,043)		-	-	-	-	-
Total City Pool	<u>\$ 1,438,524</u>		<u>\$ 220,685</u>	<u>\$ 75,773</u>	<u>\$ 56,958</u>	<u>\$ 1,071,321</u>	<u>\$ 5,019</u>
							<u>\$ 8,768</u>

Agency Non-Pooled Investment Type		Rating as of Year End					
		Minimum Legal Rating	Not Required To Be Rated	A-1+	A-1	AAA	AA-
Guaranteed Investment Contracts	\$ 122,684	N/A	\$ 122,684	\$ -	\$ -	\$ -	\$ -
Money Market Funds	20,315	N/A	20,315	-	-	-	-
Time Certificates of Deposit	10,000	N/A	10,000	-	-	-	-
Total held by Bond Trustees	<u>\$ 152,999</u>		<u>\$ 152,999</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Concentration of Credit Risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer that represent 5% or more on total City's pooled investments are as follows (in thousands):

Issuer	City Pooled Investment Type	Reported Amount
FFCB Total	Federal Agency Securities	\$ 181,052
FHLB Total	Federal Agency Securities	241,246
FHLMC Total	Federal Agency Securities	266,937
FNMA Total	Federal Agency Securities	353,641
U.S. Treasuries	U.S. Treasury Notes & bonds	214,467
Commercial Paper	Unsecured Corporate debt	132,731

Credit Risk

Custodial credit risk for deposits is the risk that, in the event of failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its

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investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits. The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

All securities owned by the City are deposited in trust for safekeeping with a custodial bank different from the City's primary bank except for one City issued bond and investment in the State's Local Area Investment Fund.

As of September 30, 2006, the City reports cash deposits of \$26,811,000 less \$18,043,000 for checks outstanding.

Investment in State Investment Pool

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code section 16429 under the oversight of the Treasurer of the State of California. The fair value of the City's investment in this pool is reported in the accompanying financial statements at amounts based upon the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are mortgage-backed securities, loans to certain state funds, securities with interest rates that vary according to changes in rates greater than a one-for-one basis, and structured basis.

GASB 31

GASB 31 requires that certain investments and external investment pools be reported at fair value. At September 30, 2006 and 2005, the effect of valuating the City's investments as fair value did not have a material impact on its financial position.

Securities-Lending

The City did not engage in any securities lending programs for the fiscal year ending September 30, 2006. The City may enter into securities lending agreements up to 20% of the investment portfolio. Securities to be sold in a lending agreement must be owned and fully paid for by the agency for a minimum of 30 days prior to the sale. The term of the securities lending agreement cannot exceed 92 days.

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Non-Pooled Restricted Cash and Investments

Non-pooled restricted cash and investments stated at fair value, in accordance with GASB Statement No. 31, including accrued interest thereon, and net of premiums and discounts, consisted of the following at September 30th, (in thousands):

	Cash with Fiscal Agent	Non-pooled Cash	Investments	Total
<u>Tax Allocation Bonds:</u>				
1992 Multiple Series:				
West Long Beach Beach Industrial Project	\$ 2,598	-	-	\$ 2,598
Downtown Project - Series A	5,715	-	-	5,715
2002 Multiple Series:				
2002A Poly High Project	122	-	-	122
2002A West Beach Project	726	-	-	726
2002B West Long Beach Industrial Project	562	1,040	-	1,602
2002A Downtown Project	2,489	-	-	2,489
2002B Downtown Project	540	-	-	540
2002A Central Long Beach Project	1,382	-	-	1,382
2002A North Long Beach Project	3,454	-	-	3,454
2005 Multiple Series:				
2005A-2 Poly High Project	2,613	-	-	2,613
2005A-2 West Beach Project	860	-	-	860
2005A-1 Los Altos Project	408	-	-	408
2005A-1 Central Long Beach Project	20,562	-	-	20,562
2005B Central Long Beach Project	7,119	-	-	7,119
2005A-1 North Long Beach Project	34,016	-	-	34,016
2005B North Long Beach Project	1,896	-	-	1,896
2005B Housing Fund	56,735	-	-	56,735
2005C Downtown Project	156	-	-	156
North Long Beach Project	-	6	10,000	10,006
Total	<u>\$ 141,953</u>	<u>\$ 1,046</u>	<u>\$ 10,000</u>	<u>\$ 152,999</u>

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Note 3 - Reconciliation of Government-wide and Fund Financial Statements

Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-wide Statement of Net Assets (Deficit)

The governmental fund balance sheet includes reconciliation between fund balance – total governmental funds and net assets (deficit) – governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains “long-term liabilities, including bonds payable, are not due and payable in the current period and therefore not reported in the funds.” The details of the \$356,140,000 and \$1,429,000 differences are as follows (in thousands):

	Capital Projects/Debt Service Funds	Low- and Moderate- Income Housing Fund
Bonds Payable	\$ 348,625	\$ -
Less Deferred charge for issuance costs (to be amortized over life of debt)	(7,506)	-
Unamortized loss on defeasance	(2,439)	
Plus: Issuance premium, net (to be amortized as a reduction of interest expense)	9,201	-
Notes payable	3,592	1,015
Accrued interest payable	4,667	414
Net adjustment to reduce fund balance-total governmental funds to arrive at net assets (deficit) - governmental activities	<u>\$ 356,140</u>	<u>\$ 1,429</u>

Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance and the Government-wide Statement of Activities

Governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.” The details of this \$7,750,000 difference are as follows (in thousands):

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	Capital Projects/Debt Service Funds
<u>Debt issued or incurred</u>	
Issuance of tax allocation bonds	\$ 35,045
Plus premium, less discount and issuance costs	1,290
Loss on bond defeasance	(2,507)
Issuance of notes, certificates of participation commercial paper, and other long-term obligations	285
<u>Principal payments</u>	
Tax Allocation Bonds obligation debt	(7,430)
Payment to escrow agent for refunding	(34,433)
Net adjustment to decrease net changes in fund balances-total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ (7,750)</u>

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. The details of such \$539,000 and \$16,000 differences are as follows (in thousands):

	Capital Projects/Debt Service Funds	Low- and Moderate- Income Housing Fund
Accrued interest	\$ (176)	\$ 16
Amortization of premium	(791)	-
Amortization of issuance cost	1,506	-
Net adjustment	<u>\$ 539</u>	<u>\$ 16</u>

Note 4 - Receivables

The following receivables are expected to be collected within one year. There are no allowances for uncollectable accounts.

Current receivables at September 30, 2006, are as follows (in thousands):

	Capital Projects/Debt Service Funds	Low- and Moderate- Income Housing Fund
Interest	\$ 2,601	\$ 10
Accounts and loans receivable	360	1
Total	<u>\$ 2,961</u>	<u>\$ 11</u>

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Note 5 - Capital Assets

Capital asset activity for the year ended September 30, 2006 is as follows (in thousands):

	Balance at October 1, 2005	Increase	Decrease	Balance at September 30, 2006
<u>Capital Project/Debt Service Fund</u>				
Capital assets, not being depreciated:				
Land	\$ 13,801	\$ 1	\$ -	\$ 13,802
Total capital assets not being depreciated	13,801	1	-	13,802
Capital assets, being depreciated:				
Machinery and equipment	8	-	-	8
Less accumulated depreciation for:				
Machinery and equipment	(7)	(1)	-	(8)
	(7)	(1)	-	(8)
Total capital assets being depreciated, net	1	(1)	-	-
Redevelopment Agency capital assets, net	\$ 13,802	\$ -	\$ -	\$ 13,802

Depreciation was charged to functions/programs of governmental activities as follows (in thousands):

Community and cultural/housing	
Community development	\$ 1

	Balance at October 1, 2005	Increase	Decrease	Balance at September 30, 2006
<u>Low- and Moderate-Income Housing Fund</u>				
Capital assets, not being depreciated:				
Land	\$ 815	\$ -	\$ -	\$ 815
Total capital assets not being depreciated	815	-	-	815
Capital assets, being depreciated:				
Building	236	-	-	236
Improvements other than buildings	1,053	-	-	1,053
Total capital assets being depreciated	1,289	-	-	1,289
Less accumulated depreciation for:				
Building	(70)	(11)	-	(81)
Improvements other than buildings	(270)	(45)	-	(315)
Total accumulated depreciation	(340)	(56)	-	(396)
Total capital assets being depreciated, net	949	(56)	-	893
Low- and Moderate-Income Housing Fund, Governmental activities capital assets, net	\$ 1,764	\$ (56)	\$ -	\$ 1,708

Depreciation was charged to functions/programs of governmental activities as follows (in thousands):

Community and cultural/housing	
Community and development	\$ 56

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Note 6 - Due to/from and Advances from/to the City of Long Beach

The composition of receivables and payables to the City as of September 30, 2006 is as follows (in thousands):

Redevelopment Agency

Due from the City of Long Beach

Special Revenue Fund	\$ 303
Total due from the City of Long Beach	<u>\$ 303</u>

Due to the City of Long Beach

General Fund	\$ 3,325
Internal Service Fund	31
Housing Development Fund	14
Total due to the City of Long Beach	<u>\$ 3,370</u>

Advances from the City of Long Beach

General Fund	\$ 98,923
Housing Development Fund	20,801
General Capital Projects	1,614
Harbor Fund	27,435
Total advances from the City of Long Beach	<u>\$ 148,773</u>

Advances to the City of Long Beach

Aquarium of the Pacific	
Funds transfer	\$ 14,390
Accrued interest	201
Total advances to the City of Long Beach	<u>\$ 14,591</u>

Low- and Moderate-Income Housing Fund

Due to the City of Long Beach

Internal Service Fund	\$ 18
Total due to the City of Long Beach	<u>\$ 18</u>

Advances to the Housing Development Fund

City of Long Beach	\$ 322
Housing Development Company	630
Total advances to the Housing Development Fund	<u>\$ 952</u>

Advances to the Redevelopment Agency

20% set-aside	\$ 16,361
Project costs	876
Total advances to the Redevelopment Agency	<u>\$ 17,237</u>

The advances from/to the City of Long Beach of \$131,536,000 and \$17,237,000, respectively, are reported only in the government-wide financial statements.

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Due to/from the City of Long Beach

At September 30, 2006, the Agency owed the City's General Fund \$3,325,000 for an interim loan to fund estimated Redevelopment Agency operating costs. This loan will be paid in the next fiscal year as tax increment revenues are received.

Employee Benefit overhead costs of \$31,000, such as funding for health benefits and paid time off, relating to the wages and salaries accrued at September 30, 2006, are payable to the City's Employee Benefits Internal Service Fund at September 30, 2006.

At September 30, 2006, the City owed the Redevelopment Agency \$303,000 for reimbursement of expenditures incurred for the construction and administration of a bike station in the Downtown Project Area.

Advances from/to the City of Long Beach

The Agency records its debt owed to the City of Long Beach only in its government-wide financial statements. From 1974 to 2006, the City transferred funds to the Agency, including Federal grant monies for use on redevelopment projects. The Agency occasionally makes discretionary payments to the City which in fiscal year 2006 amounted to \$1,418,000. At September 30, 2006, the outstanding balances of these transfers amounted to \$98,923,000, \$4,440,000 and \$1,614,000 in the City's General Fund, Housing Development Special Revenue Fund, and General Capital Projects Fund, respectively, for land acquisition, project and administration costs. It is the intent of the Agency to repay these transfers as future property tax increment revenues permit. Due to the long-term nature of the repayment, the City has reserved these interfund receivables in the General Fund and established deferred revenue in the Housing Development Special Revenue Fund and General Capital Projects Fund.

Effective in fiscal year 1986, the Agency was allowed to defer a portion or 100% of the housing set-aside based on the financial obligations existing prior to January 1986. The deferred payments of \$16,361,000 at September 30, 2006, are considered "Advances from the Housing Development Fund" and constitute a debt of the project area to the Housing Development Fund. There was no deferral of the 20% housing set-aside for the Downtown Project Area for the fiscal year ending September 30, 2006. Advances from the Housing Development Fund at September 30, 2006, is a component of the Statement of Net Assets, "Advances from the City of Long Beach" showing a total of \$17,237,000.

In December 1993, the City agreed to convey to the Agency real property for the Central Long Beach Project equal to the fair market value less any costs of demolition and remediation of the property or \$1,877,000. Pursuant to the loan agreement, the Agency is required to make a loan repayment equal to at least 1% of the net tax increment received by the Agency for the Central Long Beach Project Area. The funds paid to the City are required to be utilized for gang prevention and other youth-related activities. In fiscal year 2006, the Agency made a loan repayment of \$118,000 to the City. The balance of this advance on September 30, 2006 was \$1,614,000.

In 1990, the Agency received an advance from the Long Beach Harbor Department for the expansion of the Long Beach Convention and Entertainment Center. The resulting note was previously scheduled to be repaid commencing on October 1, 1997. In August 1995

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the agreement was amended to defer payment until a certificate of occupancy was issued for the Aquarium of the Pacific Project, which was completed in fiscal year 1998. In 2002 a subsequent amendment deferred further the scheduled quarterly payments of \$441,000 over 16 years. The advance is payable solely from the Downtown Project Area's transient occupancy taxes levied pursuant to the provisions of the California Revenue and Taxation Code. At September 30, 2006, the total aggregate balance outstanding was \$27,435,000.

The repayment to the Port is subordinated to a pledge to fund payments of the Aquarium of the Pacific Project bond issue in 2001. According to the Owner Participation Agreement by and among the Redevelopment Agency of the City of Long Beach, Long Beach Bond Finance Authority and the Aquarium of the Pacific, all Redevelopment Agency Fund transient occupancy taxes are pledged to fund the debt service payments of the Lease Revenue Refunding Bonds (Aquarium of the Pacific Project) Series 2001 if needed. The Redevelopment Agency will be reimbursed for any such advances together with accrued interest, at an interest rate equal to the rate earned on the City Treasurer's Investment Pool as monies are available. At September 30, 2006, the Redevelopment Agency advanced \$14,591,000 to the City for the bond payment, including accrued interest of \$201,000 through fiscal year 2006.

Low-and Moderate-Income Housing Fund

The advances to the Agency of \$17,237,000 consist of the prior years deferred payments for the Downtown Project Area housing set-aside of \$16,361,000 and advances made to the Central Long Beach Project Area of \$876,000 for a residential construction project.

In 2006, the Low and Moderate Income Housing Fund advanced \$952,000 to the City and the Long Beach Housing Development Company for the repayment of long-term notes payable to the California Housing Finance Agency. As of September 30, 2006, \$322,000 has been advanced to the City for the Parwood Project and \$630,000 advanced to the Housing Development Company for the Grisham Project.

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Note 7 - Long-Term Obligations

Long-Term Debt activity for the year ended September 30, 2006, was as follows (in thousands):

	Balance at October 1, 2005	Additions	Reductions	Balance at September 30, 2006	Due within one year
Capital Project/Debt Service Fund					
Bonds payable					
Tax allocation bonds	\$ 355,443	\$ 35,045	\$ (41,863)	\$ 348,625	\$ 7,812
Add (less) deferred amounts					
Premium	8,192	2,455	(813)	9,834	-
Discount	(655)	-	22	(633)	-
Issuance costs	(7,847)	(1,165)	1,506	(7,506)	-
Loss on defeasance	-	(2,507)	68	(2,439)	-
Total bonds payable	\$ 355,133	\$ 33,828	\$ (41,080)	\$ 347,881	\$ 7,812
Notes payable	3,307	285	-	3,592	-
Advances from the City of Long Beach	131,111	1,854	(1,429)	131,536	-
Advances from Low- and Moderate-Income Housing Fund	17,219	18	-	17,237	-
Long-term liabilities	\$ 506,770	\$ 35,985	\$ (42,509)	\$ 500,246	\$ 7,812

Low- and Moderate-Income Housing Fund

There was no activity in the long-term liabilities of the Low- and Moderate-Income Housing Fund (in thousands):

	Balance at October 1, 2005	Additions	Reductions	Balance at September 30, 2006	Due within one year
Notes payable	\$ 1,015	-	-	\$ 1,015	\$ -

Note 8 - Bonds Payable

At September 30, 2006, bonded indebtedness consisted of the following (in thousands):

	Date Issued	Final Maturity	Range of Semi- Annual Interest Rates	Authorized and Issued	Outstanding Balance September 30, 2006
<u>Tax Allocation Bonds:</u>					
1992 Multiple Series:					
Downtown Project - Series A	12/01/92	11/01/22	2.9 - 6.00%	\$ 81,020	\$ 36,475
West Long Beach Beach Industrial Project	12/01/92	11/01/22	2.9 - 6.00%	36,470	16,425
2002 Multiple Series:					
2002A Poly High Project	06/25/02	08/01/12	4.809%	1,710	1,120
2002A West Beach Project	06/25/02	08/01/18	5.152%	8,895	7,322
2002B West Long Beach Industrial Project	12/05/02	11/01/24	2.00 - 5.50%	21,860	19,660
2002A Downtown Project	06/25/02	08/01/24	5.04 - 5.25%	26,820	16,651
2002B Downtown Project	12/05/02	11/01/22	2.25 - 5.50%	25,920	22,615
2002A North Long Beach Project	06/25/02	08/01/31	6.105%	40,290	11,170
2005A-1 Los Altos Project	03/02/05	08/01/20	2.20 - 4.00%	4,685	4,430
2005A-1 Central Long Beach Project	03/02/05	08/01/40	3.52 - 5.34%	22,690	22,425
2005A-1 North Long Beach Project	03/02/05	08/01/35	3.52 - 5.16%	39,000	38,373
2005A-2 Poly High Project	03/02/05	08/01/24	3.79 - 4.90%	2,558	2,558
2005A-2 West Beach Project	03/02/05	08/01/20	4.59 - 4.66%	839	839
2005B Central Long Beach Project	03/02/05	08/01/40	3.52 - 5.34%	34,240	33,840
2005B North Long Beach Project	03/02/05	08/01/35	3.52 - 5.16%	25,080	24,677
2005B Housing Fund	03/02/05	08/01/40	3.52 - 5.44%	55,665	55,020
2005C Downtown Project	02/01/06	08/01/24	3.25 - 5.50%	7,900	7,880
2005C North Long Beach Project	02/01/06	08/01/31	3.70 - 5.50%	27,145	27,145
Total Bonds Payable				<u>\$ 462,787</u>	<u>\$ 348,625</u>

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In February 2006, the Agency issued \$35,045,000 in Long Beach Bond Finance Authority Revenue Bonds 2005 Series C to advance refund a portion of the Downtown and North Long beach Project Areas 2002 Series A bonds. These refunding bonds consist of two separate issues namely: (a) the \$7,900,000 Series 2005C Downtown Bonds and (b) the \$27,145,000 Series 2005C North Long Beach Bonds. The refunded bonds are the \$7,450,000 of the 2002 Series A Downtown Bonds (Downtown Project) and \$26,983,000 of the 2002 Series A North Long Beach Bonds (North Long Beach Project).

The net proceeds of these Agency refunding bond issues have been placed in escrow accounts administered by an independent bank fiscal agent. These proceeds are invested by the trustee in various securities under a flexible draw investment agreement executed for these bond issues. The investments and the interest earned thereon are earmarked to finance future payments of interest, principal and redemption premium on the refunded Series 2002A Bonds; and the Series 2005C North Long Beach Bonds until its crossover date in year 2012. At September 30, 2006, the outstanding balances of the defeased 2002 Series A Downtown Bonds and North Long Beach Bonds are \$7,445,000 and \$26,983,000, respectively.

Annual Payments

Combined annual debt-service payments to maturity for all bonds are as follows (in thousands):

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2007	\$ 7,812	\$ 18,254	\$ 26,066
2008	8,251	17,857	26,108
2009	8,672	17,428	26,100
2010	9,130	16,971	26,101
2011	9,593	16,491	26,084
2012 - 2016	56,797	76,347	133,144
2017 - 2021	70,713	63,267	133,980
2022 - 2026	67,118	39,595	106,713
2027 - 2031	46,309	24,262	70,571
2032 - 2036	39,420	12,339	51,759
2037 - 2040	24,810	3,320	28,130
Totals	<u>\$ 348,625</u>	<u>\$ 306,131</u>	<u>\$ 654,756</u>

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Note 9 - Notes and Interest Payable

At September 30, 2006, the Agency had the following notes payable to land sellers, developers, and other governmental entities (in thousands):

	<u>Date Issued</u>	<u>Final Maturity</u>	<u>Range of Interest Rates</u>	<u>Originally Issued</u>	<u>Outstanding at September 30, 2006</u>
Capital Project/Debt Service Fund					
Los Angeles County	1/21/1992	12/10/2036	3.75%	\$ 2,142	\$ 2,142
419 West Broadway, LLC	6/3/2004	6/18/2009	6.00-8.00%	1,450	1,450
Total Redevelopment Capital Project Fund				<u>\$ 3,592</u>	<u>\$ 3,592</u>
<u>Low- and Moderate-Income Housing Fund</u>					
State of California	1/23/1992	1/23/2022	3.00%	<u>\$ 1,015</u>	<u>\$ 1,015</u>

Combined annual debt service payments to maturity for all notes are as follows (in thousands):

<u>Capital Projects / Debt Service Funds</u>			
<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2007	\$ -	\$ 87	\$ 87
2008	-	87	87
2009	1,450	65	1,515
2010	-	-	-
2011	-	-	-
2012-2021	-	-	-
2022-2036	2,142	2,075	4,217
Totals	<u>\$ 3,592</u>	<u>\$ 2,314</u>	<u>\$ 5,906</u>

<u>Low- and Moderate-Income Housing Fund</u>			
<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2007	\$ -	\$ 30	\$ 30
2008	-	30	30
2009	-	30	30
2010	-	30	30
2011	-	30	30
2012-2016	-	152	152
2017-2021	-	152	152
2022	1,015	447	1,462
Totals	<u>\$ 1,015</u>	<u>\$ 901</u>	<u>\$ 1,916</u>

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Tax Increment Pass-Through Obligation

The Agency has an agreement to pay Los Angeles County 49.44% of tax increment generated by the Los Altos Project Area, payable commencing in 2020 at a simple interest rate of 3.75%. The tax increment due to the County at September 30, 2006, totaled \$2,142,000.

Downtown Project Obligation

In June 2004, the Redevelopment Agency executed a promissory note with a principal sum of \$1,450,000 for real property purchased for the Downtown Project Area. The interest rate of the note is variable and set at 2% over prime with a minimum rate of 6% and a maximum rate of 8%. Interest-only payments are due quarterly until June 2009 when the principal amount is due and payable or when the property is sold by the Agency, whichever occurs first. The promissory note is secured by a deed of trust in favor of the lender.

Note 10 - Other Assets

Other current assets depicted in the Capital Projects/Debt Service Fund include the following at September 30, 2006 (in thousands):

Prepaid rent for the IDM structure	\$ 1,764
Deposits with Superior Court	8,827
Deposits with State Treasurer's Office	12,905
Prepaid expense	214
Other	5
Total Other Assets	<u>\$ 23,715</u>

Other non-current assets of \$1,000 depicted in the Low- and Moderate-Income Housing Fund represent loan repayments that are to be remitted by the collection agency.

Note 11 - Low- and Moderate-Income Housing Set-aside

Community Redevelopment Law requires redevelopment agencies to set-aside 20% of their property tax increment to increase or improve the supply of low- and moderate-income housing in the community. Agencies must deposit the housing set-aside funds in a low- and moderate-income housing fund. The Redevelopment Agency of the City of Long Beach deposits its housing set-aside with the City of Long Beach.

Effective January 1, 1986, the laws governing redevelopment were amended to include project areas created prior to 1977 into the low- and moderate-income housing set-aside program. However, the law allows pre-1977 projects to set aside less than 20% of tax increment revenue if the project area's obligations from programs, projects and financial obligations existing prior to January 1, 1986, exceeded the tax increment revenue available. Beginning January 1, 1986, the portion of the set-aside not paid became indebtedness of the project area.

In fiscal year 1986, all Redevelopment Project Areas, except West Beach, qualified for reduced set-aside payments. In fiscal year 1988, only the Downtown Project Area qualified

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for a reduced payment but elected to recognize the amount as deferred rather than exempt. The Downtown Project Area qualified for and deferred a portion or all of the set-aside amount in fiscal years 1989 through 2002. Amendments in 1989 to the State Health and Safety Code Section 33334.6 (g) required redevelopment agencies to treat shortfalls in fiscal years 1986 and 1987 as deficits in the low- and moderate-income housing fund. As a result, in fiscal year 1995 the Agency recorded an additional \$1,821,000 as a liability in the City's Housing Development Fund; this amount was equal to the fiscal years 1986 and 1987 Downtown Project Area set-aside.

The deferred debt was previously accounted for as a current liability because it was payable from any excess funds that might have become available. However, it has been determined that projections of tax increment revenues in the immediate future made it unlikely that payments would begin soon. As a result, the Agency has determined it necessary to account for the deferred set-aside as a long-term liability beginning in fiscal year 1996. With the implementation of GASB Statement No. 34, the deferred set-aside of \$16,361,000 for the Downtown Project Area has been reclassified from the General Long-Term Debt Account Group to Advances from the City of Long Beach (see note 6). Effective October 1, 2004, the Agency changed its method of accounting for advances from the City of Long Beach based on additional guidance issued by the Governmental Accounting Standards Board (GASB). The Agency now records its debt owed to the City of Long Beach only in its government-wide financial statements. The Agency has adopted a "Downtown Project Area Housing Fund Deficit Reduction Plan" Resolution RA 21-95, which calls for an analysis of available tax increment and existing obligations beginning in 2010, and every two years thereafter, until reduction of the deferred debt is found feasible, and commences.

During fiscal year 2006, all seven Redevelopment Project Areas paid a full 20% of their tax increment revenue to the Housing Development Fund and no Project Area deferred a low- and moderate-income housing set-aside payment.

The Agency deposits set-aside funds into the Low- and Moderate-Income Housing Fund (Housing Fund). The following table shows the amount deferred from prior years, the current fiscal year's 20% set-aside requirement, the current fiscal year's payment, and the total amount not yet paid to the City's Housing Fund at September 30, 2006, for each Project Area (in thousands):

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Project Area	Advances from Housing Fund October 1, 2005	Current Year 20% Set Aside	Current Year Payment to Low- and Moderate- Income Housing Fund	Advances from Low- and Moderate- Income Housing Fund September 30, 2006
Downtown	\$ 16,361	\$ 2,649	\$ (2,649)	\$ 16,361
West Beach	-	258	(258)	-
West Long Beach Industrial	-	2,249	(2,249)	-
Poly High	-	26	(26)	-
Los Altos	-	111	(111)	-
Central Long Beach	-	1,638	(1,638)	-
North Long Beach	-	8,921	(8,921)	-
Total	<u>\$ 16,361</u>	<u>\$ 15,852</u>	<u>\$ (15,852)</u>	<u>\$ 16,361</u>

Note 12 - Transfers from/to the City of Long Beach

For the fiscal year ended September 30, 2006, the City transferred \$5,741,000 from the Low- and Moderate-Income Housing Fund to the Central Long Beach Project Area: \$2,330,000 for project development and \$3,411,000 for amortization payment on the 2005 Housing Bonds.

Details of \$7,162,000 in funds transferred from the Agency to the City for the fiscal year ended September 30, 2006 were as follows (in thousands):

Transfers to	Amount
Capital Projects Fund	\$ 2,928
Tidelands Operating Fund	535
Aquarium of the Pacific	3,685
Housing Development Fund	14
Total transfers to the City	<u>\$ 7,162</u>

The Agency transferred \$2,928,000 to the Capital projects Fund of the City from the Central Long Beach and North Long Beach Project Areas 2005 bond proceeds.

The Agency transferred \$535,000 to the Tidelands Fund in fiscal year 2006 to supplement the debt service of the bonds issued for the construction of an energy plant at the Convention Center.

The Agency transferred \$3,685,000 from transient occupancy taxes (TOT) generated by Agency-sponsored hotels to the Tidelands Fund. In prior years, the TOT revenues were paid to the Port of Long Beach. However, from fiscal years 2002 to 2006, the Port of Long Beach loan repayment from the TOT revenues was subordinated to the bond payment for the Aquarium of the Pacific.

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The Agency transferred \$14,000 of 2005 Housing Bond proceeds to the Housing Development Fund for the Washington School Focus Area project.

Any redevelopment project area adopted after 1994 is required to share 20% of its tax increment with the taxing agencies affected by the adoption of the project area including city governments. As a result, the Central Long Beach and North Long Beach Project Areas paid \$701,000 and \$2,109,000, respectively, to the City of Long Beach.

In addition, an amendment to Section 33333.6 of the Health and Safety Code took effect on January 1, 2002, authorizing redevelopment agencies to eliminate the time limit for incurring indebtedness; if this time limit is eliminated for a project area that project area must commence statutory pass-through payments one year following the year its time limit for incurring indebtedness would have otherwise have been reached. On November 11, 2003, the Long Beach City Council adopted ordinances amending the Redevelopment Plans for the West Beach, Poly High and West Long Beach Industrial Project Areas to eliminate their time limits for incurring indebtedness. Fiscal year 2006 is the second year these project areas are required to make statutory pass-through payments. The West Beach and West Long Beach Industrial Redevelopment Project Areas paid \$13,000 and \$180,000, respectively, to the City. The Poly High Redevelopment Project Area did not have a sufficient increase in tax increment revenue to make a pass-through payment.

These payments are part of the pass-through charges expenditure category of \$14,302,000 under the Debt Service Fund in the Combined Statement of Revenues, Expenditures, and Changes in Fund Balance. The remaining balance of \$11,299,000 pass-through charges relate to money due to agencies other than the City.

Note 13 - Land Held for Resale

The Agency owns various parcels of land located within its various project areas. These properties have been recorded at the lower of cost or market value (when a definite market value can be determined), excluding demolition and relocation costs. Due to the potential long-term nature of these assets, the Agency has reserved fund balance for land held for resale. At September 30, 2006, the Agency had the following amount of land held for resale in each project area (in thousands):

Project Area	Value at Lower of Cost or Market Value	
	Capital Projects/Debt Service Funds	Low- and Moderate-Income Housing Fund
Downtown	\$ 33,772	\$ -
West Long Beach Industrial	3,090	-
Central Long Beach	37,663	-
North Long Beach	41,980	995
Total	<u>\$ 116,505</u>	<u>\$ 995</u>

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Low- and Moderate-Income Housing Fund

There was no change in land held for resale during fiscal year 2006. The total amount of land held for resale as of September 30, 2006 was \$995,000.

Note 14 - Eliminations and Reclassifications of Interproject Loans

In prior years, interproject loans were recorded to allow one project area to invest excess cash in another project area. This practice is no longer used by the Agency. Existing loans are repayable by the project area if and when sufficient revenues for repayment are available or as provided for under the applicable loan agreement. The principal amount of the loan accrues interest at the various interest rates specified in the corresponding loan agreements.

The following schedule presents interproject loans outstanding as of September 30, 2006 (in thousands):

From Project	To				
	West Beach	Downtown	Los Altos	Central LB	Total
West Long Beach Industrial	\$ 306	\$ 14,718	\$ 3,475	\$ 2,186	\$ 20,685
Total	<u>\$ 306</u>	<u>\$ 14,718</u>	<u>\$ 3,475</u>	<u>\$ 2,186</u>	<u>\$ 20,685</u>

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Advances between redevelopment project areas are as follows
(in thousands):

	<u>Original</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Outstanding</u>
In July 1980 and September 1982, the West Long Beach Industrial and Downtown Project Areas entered into a promissory note and temporary loan agreements for the West Long Beach Industrial Project Area to advance funds necessary to finance the project costs in the Downtown Project Area. The initial interest rates on the advances were 8% and 12%. Effective July 1, 1988, the rates were revised to equal that which is earned by the City Treasurer on the City of Long Beach pooled cash. Repayment of the advances will be made as funds become available.	\$ 6,771	\$ 4,743	\$ 7,818	\$ 12,561
In April 1995, the West Long Beach Industrial Project Area exchanged a certain property owned by the City of Long Beach in the Downtown Project Area. The purchase price of the West Long Beach Industrial Project Area was agreed to be indebtedness of Downtown and West Long Beach Industrial Project Areas. The indebtedness accrued interest at a rate equal to that which accrued on the Tax Anticipation Notes of the City of Long Beach. Repayment of the indebtedness will be made solely from the proceeds of sale of property.	861	861	310	1,171
In June 1995, the West Long Beach Industrial and Los Altos Project Areas entered into a promissory note and loan agreement for the West Long Beach Industrial Project Area to advance funds on an as needed basis to meet Los Altos acquisition and relocation expenses. The indebtedness accrued interest at a rate equal to that earned by the City Treasurer on the City of Long Beach pooled cash. The sales tax allocated to the Los Altos Project Area by the City of Long Beach and any surplus tax increment from the project are pledged to the West Long Beach Industrial Project Area loan repayment.	12,700	3,475	-	3,475
In July 1995 a promissory note and loan agreement was entered into by the West Long Beach Industrial Project Area and Poly High, West Beach, Downtown, and Central Long Beach Project Areas for the West Long Beach Industrial Project Area to advance for contributions to the development of the Long Beach Unified School District Transportation Facility. The indebtedness accrued interest at a rate equal to that which accrues on the Tax Anticipation Notes of the City of Long Beach. Repayment of the indebtedness will be made as future tax increments become available. However, in June 2002, the advance to Poly High Project Area was repaid from tax allocation bond proceeds.	2,571	2,572	906	3,478
Totals	<u>\$22,903</u>	<u>\$11,651</u>	<u>\$ 9,034</u>	<u>\$ 20,685</u>

Redevelopment Agency of the City of Long Beach
(A Component Financial Reporting Unit of the City of Long Beach, California)
Notes to Combined Financial Statements
September 30, 2006

Note 15 - Long-Term Receivables, Reserved Fund Balance and Deferred Revenue

Long-term receivables are offset by either reserved fund balance-other or deferred revenue in the accompanying fund financial statements. The table below presents the detail components of the Agency's and the Low-and Moderate-Income Housing Fund's long-term receivables and corresponding offset accounts at September 30, 2006 (in thousands):

Governmental Funds:

Description	Capital Projects / Debt Service Fund			Low- and Moderate-Income Housing Fund - Deferred Revenue
	Long-Term Receivables	Reserved Fund Balance-Long Term Receivables	Deferred Revenue	
Loans receivable:				
Blk M	\$ 35	\$ 35	\$ -	\$ -
Olson, Downtown Promenade Land Sale	2,499	-	2,499	-
Lennar LB, Downtown Promenade-Land Sale	285	-	285	-
Delinquent Tax Los Angeles County	24	24	-	-
A & E Amador	124	124	-	-
C & P Thomas-Purchase of Replacement Home	174	-	174	-
Central LB Commercial Facade Improvement	6	-	6	-
North LB Commercial Facade Improvement	919	-	919	-
Low-and moderate-income housing loans	-	-	-	17,434
Total Long-Term Receivables	\$ 4,066	183	3,883	17,434
Additional components:				
Prepaid rent for the IDM structure, non-current		1,729	-	-
Accounts receivable		-	17	-
Transfer of TOT funds for the Aquarium of the Pacific bond payment		-	14,591	-
Brownfields Clean-up revolving loan fund		-	22	-
Cash-Deposits from contractors/developers		-	275	-
Prepaid rent from LOIS Apartment tenant		-	-	1
Total Reserved / Deferred Revenues		\$ 1,912	\$ 18,788	\$ 17,435

Note 16 - Other Reserved Fund Balances

Low- and Moderate-Income Housing Fund

At September 30, 2006, the reserved fund balance of \$31,000 has been accumulated for operating and maintenance reserves required under the Regulatory Agreement of the promissory note with the State for \$1,015,000.

Note 17 - Commitments and Contingencies

Litigation

The Agency is subject to claims and lawsuits arising from the normal course of business. Such claims are routinely evaluated by representatives of the City Attorney's Office. In the event of litigation, the Agency's management may make provision for probable losses if deemed appropriate on advice of legal counsel. In cases where such provision for damages would be considered necessary, appropriate amounts would be reflected in the accompanying combined financial statements. Based upon information obtained from the City Attorney with respect to the Agency, it is the opinion of the Agency's management that there are no existing or potential liabilities for claims and suits, which could have a material impact on the Agency's combined financial statements.

Redevelopment Agency of the City of Long Beach
(A Component Financial Reporting Unit of the City of Long Beach, California)
Notes to Combined Financial Statements
September 30, 2006

Note 18 - Education Revenue Augmentation Fund (ERAF) Payments

The Agency made an additional ERAF payment of \$2,921,000 in May 2006, in addition to the ERAF payment in May 2005 of \$2,901,000. This is pursuant to the State requiring redevelopment agencies to shift, in aggregate, \$250,000,000 in property tax revenues to the ERAF for K-12 schools and community colleges during fiscal years 2005 and 2006. This payment is shown as a pass-through expenditure.

Supplementary Financial Information

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Redevelopment Agency of the City of Long Beach
(A Component Financial Reporting Unit of the City of Long Beach California)
Combining Balance Sheet - Governmental Funds
Capital Project Funds by Project Area
September 30, 2006
(In Thousands)

	Downtown Project Area	West Beach Project Area	West Long Beach Industrial Project Area
ASSETS			
Pooled cash and cash equivalents	\$ 7,772	\$ 20	\$ 15,187
Non-pooled cash and cash equivalents	-	-	-
Accounts receivable	-	-	-
Receivables from other governments	16	-	-
Due from the City of Long Beach	303	-	-
Land held for resale	33,772	-	3,090
Other assets	2,356	-	5
Long-term receivables	2,843	-	124
Interproject loan and interest receivable	-	-	20,685
TOTAL ASSETS	\$ 47,062	\$ 20	\$ 39,091
LIABILITIES			
Voucher payables	\$ 274	\$ -	\$ 35
Accounts payable	23	-	10
Accrued wages payable	10	1	14
Collections held in trust	412	-	66
Deferred revenues	3,016	-	40
Due to other funds-Current	3,330	-	7
Interproject loan and interest payable	14,718	306	-
TOTAL LIABILITIES	21,783	307	172
FUND BALANCE (ACCUMULATED DEFICIT)			
Reserved:			
Land held for resale	33,772	-	3,090
Future projects	4,375	19	15,014
Interproject Loans	(14,718)	(306)	20,685
Encumbrances	62	-	6
Other	1,788	-	124
TOTAL FUND BALANCE (ACCUMULATED DEFICIT)	25,279	(287)	38,919
TOTAL LIABILITIES AND FUND BALANCE	\$ 47,062	\$ 20	\$ 39,091

See accompanying independent auditors' report

Poly High Project Area	Project Income Fund	Los Altos Project Area	Central Long Beach Project Area	North Long Beach Project Area	Total
\$ 7	\$ 4,044	\$ 83	\$ 14	\$ 4,343	\$ 31,470
-	-	-	1,382	6	1,388
-	-	-	2	-	2
-	-	-	-	-	16
-	-	-	-	-	303
-	-	-	37,663	41,980	116,505
925	-	-	7,491	12,906	23,683
-	-	-	182	917	4,066
-	-	-	-	-	20,685
<u>\$ 932</u>	<u>\$ 4,044</u>	<u>\$ 83</u>	<u>\$ 46,734</u>	<u>\$ 60,152</u>	<u>\$ 198,118</u>
\$ -	\$ -	\$ -	\$ 227	\$ 123	\$ 659
1	-	-	378	1,201	1,613
2	-	1	13	21	62
-	1	-	70	56	605
-	-	-	224	917	4,197
1	1	1	6	10	3,356
-	-	3,475	2,186	-	20,685
<u>4</u>	<u>2</u>	<u>3,477</u>	<u>3,104</u>	<u>2,328</u>	<u>31,177</u>
-	-	-	37,663	41,980	116,505
928	4,042	81	7,999	15,334	47,792
-	-	(3,475)	(2,186)	-	-
-	-	-	154	510	732
-	-	-	-	-	1,912
<u>928</u>	<u>4,042</u>	<u>(3,394)</u>	<u>43,630</u>	<u>57,824</u>	<u>166,941</u>
<u>\$ 932</u>	<u>\$ 4,044</u>	<u>\$ 83</u>	<u>\$ 46,734</u>	<u>\$ 60,152</u>	<u>\$ 198,118</u>

Redevelopment Agency of the City of Long Beach
(A Component Financial Reporting Unit of the City of Long Beach California)
Combining Balance Sheet - Governmental Funds
Debt Service Funds by Project Area
September 30, 2006
(In Thousands)

	Downtown Project Area	West Beach Project Area	West Long Beach Industrial Project Area
ASSETS			
Pooled cash and cash equivalents	\$ 1,198	\$ 467	\$ 2,215
Non-pooled cash and cash equivalents	8,901	1,586	3,160
Accounts and loans receivable	-	-	-
Interest receivable on investments	176	21	45
Investments	-	-	-
Other assets	32	-	-
Advances to the City of Long Beach	-	-	-
	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	<u><u>\$ 10,307</u></u>	<u><u>\$ 2,074</u></u>	<u><u>\$ 5,420</u></u>
LIABILITIES			
Accounts payable	\$ -	\$ -	\$ -
Advances from the City of Long Beach	-	-	-
Deferred revenue	-	-	-
	<u> </u>	<u> </u>	<u> </u>
TOTAL LIABILITIES	<u> </u>	<u> </u>	<u> </u>
FUND BALANCE			
Reserved:			
Future projects	705	878	-
Debt service	9,602	1,196	5,420
	<u> </u>	<u> </u>	<u> </u>
TOTAL FUND BALANCE	<u>10,307</u>	<u>2,074</u>	<u>5,420</u>
	<u> </u>	<u> </u>	<u> </u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 10,307</u></u>	<u><u>\$ 2,074</u></u>	<u><u>\$ 5,420</u></u>

See accompanying independent auditors' report

Poly High Project Area	Project Income Fund	Los Altos Project Area	Central Long Beach Project Area	North Long Beach Project Area	Housing Fund	Total
\$ 107	\$ -	\$ 147	\$ 731	\$ 3,332	\$ 13	\$ 8,210
2,735	-	408	27,680	39,366	56,735	140,571
-	358	-	-	-	-	358
35	-	4	442	748	1,130	2,601
-	-	-	-	10,000	-	10,000
-	-	-	-	-	-	32
-	14,591	-	-	-	-	14,591
<u>\$ 2,877</u>	<u>\$ 14,949</u>	<u>\$ 559</u>	<u>\$ 28,853</u>	<u>\$ 53,446</u>	<u>\$ 57,878</u>	<u>\$ 176,363</u>
\$ -	\$ -	\$ -	\$ 1	\$ 178	\$ -	\$ 179
-	-	-	-	-	14	14
-	14,591	-	-	-	-	14,591
-	14,591	-	1	178	14	14,784
2,548	-	-	23,413	31,854	53,647	113,045
329	358	559	5,439	21,414	4,217	48,534
2,877	358	559	28,852	53,268	57,864	161,579
<u>\$ 2,877</u>	<u>\$ 14,949</u>	<u>\$ 559</u>	<u>\$ 28,853</u>	<u>\$ 53,446</u>	<u>\$ 57,878</u>	<u>\$ 176,363</u>

Redevelopment Agency of the City of Long Beach
(A Component Financial Reporting Unit of the City of Long Beach California)
Combining Balance Sheet - Governmental Funds
Low-and Moderate-Income Housing by Project Area
September 30, 2006
(In Thousands)

	<u>Downtown Project Area</u>	<u>West Beach Project Area</u>	<u>West Long Beach Industrial Project Area</u>
ASSETS			
Pooled cash and cash equivalents	\$ -	\$ -	\$ 8,752
Non-pooled cash and cash equivalents	-	-	388
Accounts and loans receivable	-	-	-
Interest receivable on investments	-	-	-
Land held for resale	-	-	-
Other assets	-	-	-
Long-term receivable	-	-	6,637
	<u>-</u>	<u>-</u>	<u>6,637</u>
TOTAL ASSETS	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,777</u>
LIABILITIES			
Voucher payables	\$ -	\$ -	\$ -
Accrued wages payable	-	-	-
Collections held in trust	-	-	-
Deferred revenue	-	-	6,636
Due to other funds	-	-	-
	<u>-</u>	<u>-</u>	<u>6,636</u>
TOTAL LIABILITIES	<u>-</u>	<u>-</u>	<u>6,636</u>
FUND BALANCE			
Reserved	-	-	-
Land held for resale	-	-	-
Future projects	-	-	9,110
Other	-	-	31
	<u>-</u>	<u>-</u>	<u>9,141</u>
TOTAL FUND BALANCE	<u>-</u>	<u>-</u>	<u>9,141</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,777</u>

See accompanying independent auditors' report

<u>Poly High Project Area</u>	<u>Los Altos Project Area</u>	<u>Central Long Beach Project Area</u>	<u>North Long Beach Project Area</u>	<u>Totals</u>
\$ -	\$ -	\$ 705	\$ 12,744	\$ 22,201
-	-	-	652	1,040
-	-	-	1	1
-	-	-	10	10
-	-	-	995	995
-	-	-	1	1
-	-	3,777	7,020	17,434
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,482</u>	<u>\$ 21,423</u>	<u>\$ 41,682</u>
\$ -	\$ -	\$ 653	\$ -	\$ 653
-	-	36	-	36
-	-	15	-	15
-	-	3,778	7,021	17,435
-	-	-	18	18
-	-	4,482	7,039	18,157
-	-	-	995	995
-	-	-	13,389	22,499
-	-	-	-	31
-	-	-	14,384	23,525
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,482</u>	<u>\$ 21,423</u>	<u>\$ 41,682</u>

Redevelopment Agency of the City of Long Beach
(A Component Financial Reporting Unit of the City of Long Beach, California)
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balance (Deficit)
Capital Project Funds by Project Area
Year Ended September 30, 2006
(In Thousands)

	Downtown Project Area	West Beach Project Area	West Long Beach Industrial Project Area
REVENUES			
Interest income	\$ 181	\$ 3	\$ 547
Rental income	1,136	-	-
Gain on land sale	1,157	-	-
Other income	122	-	-
TOTAL REVENUES	<u>2,596</u>	<u>3</u>	<u>547</u>
EXPENDITURES			
Administrative costs	1,745	104	903
Professional services	69	-	9
Planning, survey and design	349	2	71
Acquisition expense	38	-	13
Operation of acquired property	181	-	416
Relocation costs	35	-	3
Relocation payments	470	-	109
Site clearance costs	-	-	-
Project improvement/construction costs	172	-	48
Disposal costs	6	-	-
Loss on sale of land held for resale	-	-	-
Rehabilitation grants and loans	-	-	-
Furniture, fixture and equipment	-	-	-
Pass-through charges	-	-	-
Debt service payments:			
City/County advances and loans - principal	-	-	-
Interest	199	1	68
TOTAL EXPENDITURES	<u>3,264</u>	<u>107</u>	<u>1,640</u>
Excess of Revenues over/(under) Expenditures	<u>(668)</u>	<u>(104)</u>	<u>(1,093)</u>
OTHER FINANCING SOURCES AND (USES)			
Other deferred payments	-	-	-
Advances-capitalized interest	(152)	(4)	289
Operating transfers from Debt Service	5,406	108	3,184
Operating transfers from/(to) the other funds, net	(463)	-	(24)
Operating transfers to the City of Long Beach	-	-	-
Operating transfers from the City of Long Beach	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>4,791</u>	<u>104</u>	<u>3,449</u>
Excess of Revenues and Other Sources over Expenditures and Other Uses	4,123	-	2,356
Fund balance (accumulated deficit)-October 1	21,156	(287)	36,563
FUND BALANCE (ACCUMULATED DEFICIT) - SEPTEMBER 30	<u><u>\$ 25,279</u></u>	<u><u>\$ (287)</u></u>	<u><u>\$ 38,919</u></u>

See accompanying independents auditors' report.

Poly High Project Area	Project Income Fund	Los Altos Project Area	Central Long Beach Project Area	North Long Beach Project Area	Total
\$ 26	\$ 143	\$ 4	\$ 82	\$ 58	\$ 1,044
-	(2)	-	357	304	1,795
-	-	-	-	-	1,157
-	20	-	56	1,510	1,708
<u>26</u>	<u>161</u>	<u>4</u>	<u>495</u>	<u>1,872</u>	<u>5,704</u>
103	31	32	1,205	2,054	6,177
1	-	-	210	225	514
2	-	1	625	489	1,539
11	-	-	1,198	500	1,760
-	-	-	1,191	2,365	4,153
2	-	-	575	305	920
-	-	-	2,143	2,939	5,661
-	-	-	15	86	101
-	-	-	1,690	9,764	11,674
-	-	-	3	-	9
-	-	-	240	201	441
-	-	-	-	1,150	1,150
-	-	-	-	6	6
-	-	220	-	-	220
-	-	-	1,264	-	1,264
12	-	1	169	50	500
<u>131</u>	<u>31</u>	<u>254</u>	<u>10,528</u>	<u>20,134</u>	<u>36,089</u>
<u>(105)</u>	<u>130</u>	<u>(250)</u>	<u>(10,033)</u>	<u>(18,262)</u>	<u>(30,385)</u>
-	-	220	-	-	220
-	-	(108)	(25)	-	-
322	-	774	24,932	60,527	95,253
490	(9)	-	6	-	-
-	-	-	(928)	(2,000)	(2,928)
-	-	-	2,330	-	2,330
<u>812</u>	<u>(9)</u>	<u>886</u>	<u>26,315</u>	<u>58,527</u>	<u>94,875</u>
707	121	636	16,282	40,265	64,490
<u>221</u>	<u>3,921</u>	<u>(4,030)</u>	<u>27,348</u>	<u>17,559</u>	<u>102,451</u>
<u>\$ 928</u>	<u>\$ 4,042</u>	<u>\$ (3,394)</u>	<u>\$ 43,630</u>	<u>\$ 57,824</u>	<u>\$ 166,941</u>

Redevelopment Agency of the City of Long Beach
(A Component Financial Reporting Unit of the City of Long Beach, California)
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balance
Debt Service Funds by Project Area
Year Ended September 30, 2006
(In Thousands)

	Downtown Project Area	West Beach Project Area	West Long Beach Industrial Project Area	Poly High Project Area
REVENUES				
Property tax increment	\$ 10,594	\$ 1,030	\$ 8,997	\$ 104
Transient occupancy tax	-	-	-	-
Interest income	1,007	100	256	129
Other income	-	-	-	-
TOTAL REVENUES	11,601	1,130	9,253	233
EXPENDITURES				
Administrative costs	180	21	121	13
Pass-through charges	607	93	1,259	21
Debt issuance costs	245	-	-	-
Debt service payments:				
Bonds and notes payable - principal	2,560	436	1,035	158
Interest	4,714	400	2,047	61
TOTAL EXPENDITURES	8,306	950	4,462	253
Excess of Revenues over (under) Expenditures	3,295	180	4,791	(20)
OTHER FINANCING SOURCES AND (USES)				
Proceeds from issuance of long term debt	7,900	-	-	-
Bond premium	192	-	-	-
Payment to refunded bond escrow agent	(7,659)	-	-	-
Operating transfers from (to) other funds, net	(185)	16	-	9
Operating transfers to Capital Projects	(5,406)	(108)	(3,184)	(322)
Operating transfers from the City of Long Beach	-	-	-	-
Operating transfers to the City of Long Beach	-	-	-	-
Payments to City of Long Beach, net	-	-	(535)	-
TOTAL OTHER FINANCING SOURCES (USES)	(5,158)	(92)	(3,719)	(313)
Excess (deficiency) of Revenues and Other Financing Sources over Expenditures and Other Uses	(1,863)	88	1,072	(333)
Fund balance-October 1	12,170	1,986	4,348	3,210
FUND BALANCE - SEPTEMBER 30	\$ 10,307	\$ 2,074	\$ 5,420	\$ 2,877

See accompanying independent auditors' report.

Project Income Fund	Los Altos Project Area	Central Long Beach Project Area	North Long Beach Project Area	Housing Fund	Total
\$ -	\$ 443	\$ 13,054	\$ 29,184	\$ -	\$ 63,406
3,634	-	-	-	-	3,634
18	31	2,772	3,782	2,968	11,063
-	677	-	-	-	677
<u>3,652</u>	<u>1,151</u>	<u>15,826</u>	<u>32,966</u>	<u>2,968</u>	<u>78,780</u>
-	7	178	472	-	992
-	58	3,246	9,018	-	14,302
-	-	-	920	-	1,165
-	255	665	1,676	645	7,430
-	149	2,970	5,638	3,006	18,985
<u>-</u>	<u>469</u>	<u>7,059</u>	<u>17,724</u>	<u>3,651</u>	<u>42,874</u>
 3,652	 682	 8,767	 15,242	 (683)	 35,906
-	-	-	27,145	-	35,045
-	-	-	2,263	-	2,455
-	-	-	(28,476)	-	(36,135)
-	-	-	160	-	-
-	(774)	(24,932)	(60,527)	-	(95,253)
-	-	-	-	3,411	3,411
(3,685)	-	-	-	(14)	(3,699)
-	-	-	-	-	(535)
<u>(3,685)</u>	<u>(774)</u>	<u>(24,932)</u>	<u>(59,435)</u>	<u>3,397</u>	<u>(94,711)</u>
(33)	(92)	(16,165)	(44,193)	2,714	(58,805)
<u>391</u>	<u>651</u>	<u>45,017</u>	<u>97,461</u>	<u>55,150</u>	<u>220,384</u>
<u>\$ 358</u>	<u>\$ 559</u>	<u>\$ 28,852</u>	<u>\$ 53,268</u>	<u>\$ 57,864</u>	<u>\$ 161,579</u>

Redevelopment Agency of the City of Long Beach
(A Component Financial Reporting Unit of the City of Long Beach, California)
Combining Schedule of Revenues, Expenditures and Changes in Fund Balance
Low-and Moderate-Income Housing Funds by Project Area
Year Ended September 30, 2006
(In Thousands)

	Downtown Project Area	West Beach Project Area	West Long Beach Industrial Project Area
REVENUES			
Property tax increment	\$ 2,649	\$ 258	\$ 2,249
Interest income	161	-	137
Rental income	-	-	-
Other income	-	-	-
TOTAL REVENUES	<u>2,810</u>	<u>258</u>	<u>2,386</u>
EXPENDITURES			
Administrative costs	1,298	-	-
Professional services	191	-	-
Acquisition expense	-	-	-
Operation of acquired property	109	-	-
Project improvement/construction costs	169	-	-
Interdepartmental charges	69	7	57
Rehabilitation grants and loans	974	251	827
TOTAL EXPENDITURES	<u>2,810</u>	<u>258</u>	<u>884</u>
Excess of Revenues over Expenditures	<u>-</u>	<u>-</u>	<u>1,502</u>
OTHER FINANCING SOURCES AND (USES)			
Transfers from the City	-	-	-
Transfer to the Redevelopment Agency	-	-	-
TOTAL OTHER FINANCING SOURCES/(USES)	<u>-</u>	<u>-</u>	<u>-</u>
Excess of Revenues and Other Financing Sources over Expenditures and Other Uses	<u>-</u>	<u>-</u>	<u>1,502</u>
Fund balance-October 1	<u>-</u>	<u>-</u>	<u>7,639</u>
FUND BALANCE - SEPTEMBER 30	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 9,141</u></u>

See accompanying independent auditors' report.

Poly High Project Area	Los Altos Project Area	Central Long Beach Project Area	North Long Beach Project Area	Total
\$ 26	\$ 111	\$ 1,638	\$ 8,921	\$ 15,852
-	-	99	543	940
-	-	80	-	80
-	-	1,022	-	1,022
<u>26</u>	<u>111</u>	<u>2,839</u>	<u>9,464</u>	<u>17,894</u>
-	-	-	212	1,510
-	-	-	-	191
-	-	-	7	7
-	-	-	-	109
-	-	-	-	169
1	3	42	229	408
25	108	502	4,093	6,780
<u>26</u>	<u>111</u>	<u>544</u>	<u>4,541</u>	<u>9,174</u>
-	-	2,295	4,923	8,720
-	-	2	-	2
-	-	(2,297)	(3,444)	(5,741)
-	-	(2,295)	(3,444)	(5,739)
-	-	-	1,479	2,981
-	-	-	12,905	20,544
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,384</u>	<u>\$ 23,525</u>

Redevelopment Agency of the City of Long Beach
(A Component Financial Reporting Unit of the City of Long Beach, California)
Schedule of Revenues, Expenditures, and Changes in Fund Balance (Deficit)
Budget and Actual (Non-GAAP Budgetary Basis) Capital Projects Fund
Year Ended September 30, 2006
(In Thousands)

	Budgeted Amounts		Actual on	Variance with
	Original	Final	Budgetary Basis	Final Budget Positive (Negative)
REVENUES				
Interest income	\$ 912	\$ 912	\$ 1,044	\$ 132
Rental income	255	255	1,795	1,540
Land sale proceeds	(1,009)	(1,009)	1,434	2,443
Other income	(343)	(343)	1,708	2,051
TOTAL REVENUES	(185)	(185)	5,981	6,166
EXPENDITURES				
Administration costs	7,479	7,734	6,909	825
Professional services	4,184	4,184	514	3,670
Planning survey and design	25,108	25,108	1,539	23,569
Acquisition costs	122,352	148,625	1,760	146,865
Operation of acquired property	6,141	6,141	4,153	1,988
Relocation costs	1,419	1,419	920	499
Relocation payments	(4,566)	(4,566)	5,661	(10,227)
Site clearance costs	(311)	(311)	101	(412)
Project improvement/construction costs	18,706	19,051	11,674	7,377
Disposal costs	(1,146)	(1,146)	9	(1,155)
Land purchases	(24,955)	(24,955)	44,267	(69,222)
Rehabilitation grants and loans	4,137	4,137	1,150	2,987
Furniture, fixture and equipment	100	100	6	94
Pass through's and ERAF payments	258	258	220	38
Debt service payments:				
City/County advances and loan principal	436	1,736	1,264	472
U.S., State and other long-term debt principal	282	282	-	282
Interest	(95)	(94)	500	(594)
TOTAL EXPENDITURES	159,529	187,703	80,647	107,056
Deficiency of Revenues over Expenditures	(159,714)	(187,888)	(74,666)	113,222
OTHER FINANCING SOURCES (USES)				
Other deferred payments	-	-	220	220
Proceeds from other long-term debt	3,625	3,625	-	(3,625)
Transfers in, net	42,001	42,001	95,253	53,252
Interagency payments	39,494	39,494	-	(39,494)
Transfer to the City	(2,661)	(2,661)	(2,928)	(267)
Transfer from the City	4,170	6,970	2,330	(4,640)
Payments to the City of Long Beach	524	524	-	(524)
TOTAL OTHER FINANCING SOURCES (USES)	87,153	89,953	94,875	4,922
Excess (deficiency) of revenues and other financing sources over expenditures and other uses	(72,561)	(97,935)	20,209	118,144
Fund balance-October 1, budgetary basis	28,644	28,644	28,644	-
Encumbrances-beginning of the year	851	851	851	-
FUND BALANCE (DEFICIT)-SEPTEMBER 30, BUDGETARY BASIS	\$ (43,066)	\$ (68,440)	\$ 49,704	\$ 118,144

See accompanying independent auditors' report and supplementary note on page 74.

Redevelopment Agency of the City of Long Beach
(A Component Financial Reporting Unit of the City of Long Beach, California)
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis) Debt Service Fund
Year Ended September 30, 2006
(In Thousands)

	Budgeted Amounts		Actual on	Variance with
	Original	Final	Budgetary Basis	Final Budget Positive (Negative)
REVENUES				
Property tax increment	\$ 51,721	\$ 51,721	\$ 63,406	\$ 11,685
Interest income	2,080	4,535	11,063	6,528
Transient occupancy tax	3,358	3,358	3,634	276
Other income	530	530	677	147
TOTAL REVENUES	57,689	60,144	78,780	18,636
EXPENDITURES				
Administration costs	1,386	1,386	992	394
Pass through's and ERAF payments	10,964	10,964	14,302	(3,338)
Debt issuance costs	-	1,165	1,165	-
Debt service payments:				
Bonds and notes payable-principal	7,415	14,865	7,430	7,435
Interest	19,729	19,937	18,985	952
TOTAL EXPENDITURES	39,494	48,317	42,874	5,443
 Excess of Revenues over Expenditures	 18,195	 11,827	 35,906	 24,079
OTHER FINANCING SOURCES (USES)				
Proceeds from other long-term debt	-	35,045	35,045	-
Bond premium	-	-	2,455	2,455
Advance refunding	-	-	(36,135)	(36,135)
Transfers in (out), net	(60,718)	(60,718)	(95,253)	(34,535)
Payment from RDA	(29,500)	(29,500)	-	29,500
Transfer to the City	(28,758)	(28,758)	(3,699)	25,059
Transfer from the City	3,519	3,519	3,411	(108)
Payments to the City of Long Beach	(524)	(524)	(535)	(11)
TOTAL OTHER FINANCING SOURCES (USES)	(115,981)	(80,936)	(94,711)	(13,775)
 Deficiency of Revenues and Other Financing Sources Over Expenditures and Other Uses	 (97,786)	 (69,109)	 (58,805)	 10,304
 Fund balance - October 1, budgetary basis	 220,384	 220,384	 220,384	 -
FUND BALANCE - SEPTEMBER 30, BUDGETARY BASIS	\$ 122,598	\$ 151,275	\$ 161,579	\$ 10,304

See accompanying independent auditors' report and supplementary note on page 74.

Redevelopment Agency of the City of Long Beach
(A Component Financial Reporting Unit of the City of Long Beach, California)
Schedule of Revenues, Expenditures, and Changes in Fund Balance (Deficit)
Budget and Actual (Non-GAAP Budgetary Basis) Low- and Moderate-Income Housing Fund
Year Ended September 30, 2006
(In Thousands)

	Budgeted Amounts		Actual on	Variance with
	Original	Final	Budgetary Basis	Final Budget Positive (Negative)
REVENUES				
Property tax increment	\$ 11,625	\$ 13,042	\$ 15,852	\$ 2,810
Interest income	(12)	(12)	940	952
Rental income	448	353	80	(273)
Proceeds from land sales	321	321	-	(321)
Other	(1,343)	(1,343)	1,022	2,365
TOTAL REVENUES	11,039	12,361	17,894	5,533
EXPENDITURES				
Administration costs	1,746	1,835	1,510	325
Professional Services	(605)	(481)	191	(672)
Planning, survey & design	(49)	(49)	-	(49)
Acquisition costs	(16)	(6)	7	(13)
Operation of acquired property	257	232	109	123
Relocation costs	(79)	(79)	-	(79)
Project improvement/construction costs	1,646	1,777	169	1,608
Disposal costs	(30)	(30)	-	(30)
Land purchases	(249)	(249)	-	(249)
Interdepartmental charges	379	555	408	147
Rehabilitation grants and loans	27,464	23,638	6,780	16,858
Furniture and fixture	(52)	(52)	-	(52)
Debt service:				
Principal	229	788	-	788
Interest	-	393	-	393
TOTAL EXPENDITURES	30,641	28,272	9,174	19,098
Excess (deficiency) of Revenues Over Expenditures	(19,602)	(15,911)	8,720	24,631
OTHER FINANCING SOURCES (USES)				
Proceeds from other long-term debt	(21)	(21)	-	21
Transfer to other funds	(4,694)	(8,213)	(5,741)	2,472
Transfer to the City	(4,423)	(886)	-	886
Transfer from the City	8,745	7,194	2	(7,192)
TOTAL OTHER FINANCING SOURCES (USES)	(393)	(1,926)	(5,739)	(3,813)
Excess (deficiency) of Revenues and Other Financing Sources Over (under) Expenditures and Other Uses	(19,995)	(17,837)	2,981	20,818
Fund balance-October 1, budgetary basis	2,330	2,330	2,330	-
FUND BALANCE (DEFICIT)-SEPTEMBER 30, BUDGETARY BASIS	\$ (17,665)	\$ (15,507)	\$ 5,311	\$ 20,818

See accompanying independent auditors' report and supplementary note on page 75.

Redevelopment Agency of the City of Long Beach
(A Component Financial Reporting Unit of the City of Long Beach, California)
Schedule of Revenues, Expenditures, and Changes in Fund Balance (Deficit)
Budget and Actual (Non-GAAP Budgetary Basis)
Year Ended September 30, 2006
(In Thousands)

	Downtown Project Area			
	Budgeted Amounts		Actual on Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Property tax increment	\$ 11,549	\$ 11,549	\$ 10,594	\$ (955)
Interest income	658	850	1,188	338
Rental income	86	86	1,136	1,050
Land sale proceeds	-	-	1,350	1,350
Other income	(1,055)	(1,055)	122	1,177
TOTAL REVENUES	11,238	11,430	14,390	2,960
EXPENDITURES				
Administration costs	1,460	1,523	1,987	(464)
Professional services	4,333	1,133	69	1,064
Planning, survey and design	751	751	349	402
Acquisition costs	11,899	12,899	38	12,861
Operation of acquired property	286	286	181	105
Relocation costs	(76)	(76)	35	(111)
Relocation Payments	(728)	(728)	470	(1,198)
Site clearance costs	(190)	(190)	-	(190)
Project improvement/construction costs	5,856	5,856	172	5,684
Disposal costs	(42)	(42)	6	(48)
Land purchases	773	773	1,900	(1,127)
Pass through's and ERAF payments	603	603	607	(4)
Debt issuance costs	-	245	245	-
Debt service payments:				
Bonds and notes payable-principal	2,545	9,995	2,560	7,435
City/County advances and loans-principal	550	550	-	550
U.S., State and other long-term debt principal	(255)	(255)	-	(255)
Interest payments	5,064	5,273	4,913	360
TOTAL EXPENDITURES	32,829	38,596	13,532	25,064
Excess (deficiency) of Revenues Under Expenditures	(21,591)	(27,166)	858	28,024
OTHER FINANCING SOURCES AND (USES)				
Proceeds from long term debt	2,415	10,315	7,900	(2,415)
Bond premium	-	-	192	192
Interproject loan-capitalized interest	-	-	(152)	(152)
Advance refunding	-	-	(7,659)	(7,659)
Payment to/from Redevelopment Agency	4,907	4,907	(648)	(5,555)
Transfer to the City	(266)	(266)	-	266
Transfer from the City	1,000	1,000	-	(1,000)
TOTAL OTHER FINANCING SOURCES (USES)	8,056	15,956	(367)	(16,323)
Excess (deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	(13,535)	(11,210)	491	11,701
Fund balance-October 1, budgetary basis	1,229	1,229	1,229	-
Encumbrances, beginning of the Year	32	32	32	-
FUND BALANCE (DEFICIT)-SEPTEMBER 30, BUDGETARY BA	\$ (12,274)	\$ (9,949)	\$ 1,752	\$ 11,701

See accompanying independent auditors' report.

Redevelopment Agency of the City of Long Beach
(A Component Financial Reporting Unit of the City of Long Beach, California)
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
Year Ended September 30, 2006
(In Thousands)

West Beach Project Area				
	Budgeted Amounts		Actual on Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Property tax increment	\$ 1,006	\$ 1,006	\$ 1,030	\$ 24
Interest income	61	61	103	42
TOTAL REVENUES	<u>1,067</u>	<u>1,067</u>	<u>1,133</u>	<u>66</u>
EXPENDITURES				
Administration costs	111	115	125	(10)
Professional services	4	4	-	4
Planning, survey and design	2	2	2	-
Project improvement/construction costs	800	800	-	800
Pass through's and ERAF payments	65	65	93	(28)
Debt service payments:				
Bonds and notes payable-principal	436	436	436	-
Interest payments	400	400	401	(1)
TOTAL EXPENDITURES	<u>1,818</u>	<u>1,822</u>	<u>1,057</u>	<u>765</u>
Excess (deficiency) of Revenues				
Over (under) Expenditures	<u>(751)</u>	<u>(755)</u>	<u>76</u>	<u>831</u>
OTHER FINANCING				
SOURCES AND (USES)				
Interproject loan-capitalized interest	-	-	(4)	(4)
Payments to/from Redevelopment Agency funds	-	-	16	16
TOTAL OTHER FINANCING				
SOURCES (USES)	<u>-</u>	<u>-</u>	<u>12</u>	<u>12</u>
Excess (deficiency) of Revenues and Other Sources				
Over Expenditures and Other Uses	<u>(751)</u>	<u>(755)</u>	<u>88</u>	<u>843</u>
Fund balance-October 1, budgetary basis	<u>1,699</u>	<u>1,699</u>	<u>1,699</u>	<u>-</u>
FUND BALANCE - SEPTEMBER 30, BUDGETARY BASIS	<u>\$ 948</u>	<u>\$ 944</u>	<u>\$ 1,787</u>	<u>\$ 843</u>

See accompanying independent auditors' report.

Redevelopment Agency of the City of Long Beach
(A Component Financial Reporting Unit of the City of Long Beach, California)
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
Year Ended September 30, 2006
(In Thousands)

West Long Beach Industrial Project Area				
	Budgeted Amounts		Actual on Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Property tax increment	\$ 6,384	\$ 6,384	\$ 8,997	\$ 2,613
Interest income	876	876	803	(73)
Rental income	(4)	(4)	-	4
Other income	(2,913)	(2,913)	-	2,913
TOTAL REVENUES	4,343	4,343	9,800	5,457
EXPENDITURES				
Administration costs	1,276	1,315	1,030	285
Professional services	113	113	9	104
Planning, survey and design	356	356	71	285
Acquisition costs	5,482	5,482	13	5,469
Operation of acquired property	2,212	2,212	416	1,796
Relocation costs	(115)	(115)	3	(118)
Relocation payments	(61)	(61)	109	(170)
Project improvement/construction costs	119	119	48	71
Disposal costs	10	10	-	10
Land purchases	(632)	(632)	-	(632)
Rehabilitation grants and loans	151	151	-	151
Pass through's and ERAF payments	522	522	1,259	(737)
Debt service payments:				
Bonds and notes payable-principal	1,035	1,035	1,035	-
Interest payments	2,062	2,062	2,115	(53)
TOTAL EXPENDITURES	12,530	12,569	6,108	6,461
Excess (deficiency) of Revenues				
Over (under) Expenditures	(8,187)	(8,226)	3,692	11,918
OTHER FINANCING				
SOURCES AND (USES)				
Interproject loan-capitalized interest	-	-	289	289
Transfers in (out), net	(2,766)	(2,766)	-	2,766
Payment to/from Redevelopment Agency	2,878	2,878	(24)	(2,902)
Transfer to the City	(1,096)	(1,096)	-	1,096
Transfer from the City	419	419	-	(419)
Payments to the City of Long Beach, net	-	-	(535)	(535)
TOTAL OTHER FINANCING				
SOURCES (USES)	(565)	(565)	(270)	295
Excess (deficiency) of Revenues and Other Sources				
Over Expenditures and Other Uses	(8,752)	(8,791)	3,422	12,213
Fund balance-October 1, budgetary basis	37,819	37,819	37,819	-
Encumbrances, beginning of the Year	2	2	2	-
FUND BALANCE - SEPTEMBER 30, BUDGETARY BASIS	\$ 29,069	\$ 29,030	\$ 41,243	\$ 12,213

See accompanying independent auditors' report.

Redevelopment Agency of the City of Long Beach
(A Component Financial Reporting Unit of the City of Long Beach, California)
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
Year Ended September 30, 2006
(In Thousands)

Poly High Project Area

	Budgeted Amounts		Actual on Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Property tax increment	\$ 424	\$ 424	\$ 104	\$ (320)
Interest income	40	40	155	115
TOTAL REVENUES	464	464	259	(205)
EXPENDITURES				
Administration costs	80	85	116	(31)
Professional services	-	-	1	(1)
Planning, survey and design	15	15	2	13
Acquisition costs	3,498	3,498	11	3,487
Operation of acquired property	5	5	-	5
Relocation costs	-	-	2	(2)
Pass through's and ERAF payments	46	46	21	25
Debt service payments:				
Bonds and notes payable-principal	158	158	158	-
Interest payments	62	62	73	(11)
TOTAL EXPENDITURES	3,864	3,869	384	3,485
Excess (deficiency) of Revenues				
Over (under) Expenditures	(3,400)	(3,405)	(125)	3,280
OTHER FINANCING				
SOURCES AND (USES)				
Operating transfers in (out), net	(3)	(3)	-	3
Payments to/from Redevelopment Agency funds	-	-	499	499
TOTAL OTHER FINANCING				
SOURCES (USES)	(3)	(3)	499	502
Excess (deficiency) of Revenues and Other Sources				
Over Expenditures and Other Uses	(3,403)	(3,408)	374	3,782
Fund balance-October 1, budgetary basis	3,431	3,431	3,431	-
FUND BALANCE - SEPTEMBER 30, BUDGETARY BASIS	\$ 28	\$ 23	\$ 3,805	\$ 3,782

See accompanying independent auditors' report.

Redevelopment Agency of the City of Long Beach
(A Component Financial Reporting Unit of the City of Long Beach, California)
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
Year Ended September 30, 2006
(In Thousands)

	Project Income			
	Budgeted Amounts		Actual on Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Interest income	\$ 46	\$ 46	\$ 161	\$ 115
Rental income	5	5	(2)	(7)
Transient occupancy tax	3,358	3,358	3,634	276
Other income	-	-	20	20
TOTAL REVENUES	3,409	3,409	3,813	404
EXPENDITURES				
Administration costs	33	33	31	2
Operation of acquired property	26	26	-	26
Project improvement/construction costs	(1)	(1)	-	(1)
TOTAL EXPENDITURES	58	58	31	27
Excess of Revenues Over Expenditures	3,351	3,351	3,782	431
OTHER FINANCING SOURCES AND (USES)				
Transfers in (out), net	(11)	(11)	-	11
Payment to/from Redevelopment Agency	11	11	(9)	(20)
Transfer to the City	(3,358)	(3,358)	(3,685)	(327)
TOTAL OTHER FINANCING SOURCES (USES)	(3,358)	(3,358)	(3,694)	(336)
Excess (deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	(7)	(7)	88	95
Fund balance-October 1, budgetary basis	4,312	4,312	4,312	-
FUND BALANCE - SEPTEMBER 30, BUDGETARY BASIS	\$ 4,305	\$ 4,305	\$ 4,400	\$ 95

See accompanying independent auditors' report.

Redevelopment Agency of the City of Long Beach
(A Component Financial Reporting Unit of the City of Long Beach, California)
Schedule of Revenues, Expenditures, and Changes in Fund Balance (Deficit)
Budget and Actual (Non-GAAP Budgetary Basis)
Year Ended September 30, 2006
(In Thousands)

Los Altos Project Area				
	Budgeted Amounts		Actual on Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Property tax increment	\$ 431	\$ 431	\$ 443	\$ 12
Interest income	6	6	35	29
Other income	530	530	677	147
TOTAL REVENUES	<u>967</u>	<u>967</u>	<u>1,155</u>	<u>188</u>
EXPENDITURES				
Administration costs	71	73	39	34
Professional services	1	1	-	1
Planning, survey and design	10	10	1	9
Pass through's and ERAF payments	311	311	278	33
Debt service payments:				
Bonds and notes payable-principal	255	255	255	-
U.S., State & other L-T Debt-principal	429	429	-	429
Interest payments	150	150	150	-
TOTAL EXPENDITURES	<u>1,227</u>	<u>1,229</u>	<u>723</u>	<u>506</u>
Excess (deficiency) of Revenues				
Over (under) Expenditures	<u>(260)</u>	<u>(262)</u>	<u>432</u>	<u>694</u>
OTHER FINANCING				
SOURCES AND (USES)				
Other deferred payments	-	-	220	220
Proceeds from long-term debt	257	257	-	(257)
Interproject loan-capitalized interest	-	-	(108)	(108)
Transfers in (out), net	<u>(11)</u>	<u>(11)</u>	<u>-</u>	<u>11</u>
TOTAL OTHER FINANCING	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
SOURCES (USES)	<u>246</u>	<u>246</u>	<u>112</u>	<u>(134)</u>
Excess (deficiency) of Revenues and Other Sources				
Over Expenditures and Other Uses	<u>(14)</u>	<u>(16)</u>	<u>544</u>	<u>560</u>
Fund deficit-October 1, budgetary basis	<u>(3,379)</u>	<u>(3,379)</u>	<u>(3,379)</u>	<u>-</u>
FUND DEFICIT - SEPTEMBER 30, BUDGETARY BASIS	<u><u>\$ (3,393)</u></u>	<u><u>\$ (3,395)</u></u>	<u><u>\$ (2,835)</u></u>	<u><u>\$ 560</u></u>

See accompanying independent auditors' report.

Redevelopment Agency of the City of Long Beach
(A Component Financial Reporting Unit of the City of Long Beach, California)
Schedule of Revenues, Expenditures, and Changes in Fund Balance (Deficit)
Budget and Actual (Non-GAAP Budgetary Basis)
Year Ended September 30, 2006
(In Thousands)

	Central Long Beach Project Area			
	Budgeted Amounts		Actual on	Variance with
	Original	Final	Budgetary	Final Budget
			Basis	Positive
				(Negative)
REVENUES				
Property tax increment	\$ 9,176	\$ 10,476	\$ 13,054	\$ 2,578
Interest income	6	6	2,854	2,848
Rental income	96	96	357	261
Land sale proceeds	(872)	(872)	84	956
Other income	1,005	1,005	56	(949)
TOTAL REVENUES	9,411	10,711	16,405	5,694
EXPENDITURES				
Administration costs	549	610	1,537	(927)
Professional services	(410)	2,790	210	2,580
Planning, survey and design	(193)	(193)	625	(818)
Acquisition costs	51,571	79,844	1,198	78,646
Operation of acquired property	(1,075)	(1,075)	1,191	(2,266)
Relocation costs	1,633	1,633	575	1,058
Relocation Payments	(3,674)	(3,674)	2,143	(5,817)
Site clearance costs	(112)	(112)	15	(127)
Project improvement/construction costs	4,561	4,606	1,690	2,916
Disposal costs	-	-	3	(3)
Land purchases	(9,954)	(9,954)	16,049	(26,003)
Rehabilitation grants and loans	(323)	(323)	-	(323)
Pass through's and ERAF payments	2,600	2,600	3,246	(646)
Debt service payments:				
Bonds and notes payable-principal	665	665	665	-
City/County advances and loans-principal	(114)	1,186	1,264	(78)
U.S., State and other long-term debt principal	66	66	-	66
Interest payments	3,128	3,128	3,139	(11)
TOTAL EXPENDITURES	48,918	81,797	33,550	48,247
Deficiency of Revenues				
Under Expenditures	(39,507)	(71,086)	(17,145)	53,941
OTHER FINANCING				
SOURCES AND (USES)				
Proceeds from long term debt	3,101	3,101	-	(3,101)
Interproject loan-capitalized interest	-	-	(25)	(25)
Transfers in (out), net	(20,530)	(20,530)	-	20,530
Payment to/from Redevelopment Agency	2,503	2,503	6	(2,497)
Transfer to the City	(266)	(266)	(928)	(662)
Transfer from the City	2,751	5,551	2,330	(3,221)
TOTAL OTHER FINANCING				
SOURCES (USES)	(12,441)	(9,641)	1,383	11,024
Excess (deficiency) of Revenues and Other Sources				
Over Expenditures and Other Uses	(51,948)	(80,727)	(15,762)	64,965
Fund balance-October 1, budgetary basis	50,395	50,395	50,395	-
Encumbrances, beginning of the Year	32	32	32	-
FUND BALANCE (DEFICIT)-SEPTEMBER 30, BUDGETARY B/	\$ (1,521)	\$ (30,300)	\$ 34,665	\$ 64,965

See accompanying independent auditors' report.

Redevelopment Agency of the City of Long Beach
(A Component Financial Reporting Unit of the City of Long Beach, California)
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
Year Ended September 30, 2006
(In Thousands)

	North Long Beach Project Area			
	Budgeted Amounts		Actual on Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Property tax increment	\$ 22,751	\$ 21,451	\$ 29,184	\$ 7,733
Interest income	1,299	3,562	3,840	278
Rental income	72	72	304	232
Land sale proceeds	(137)	(137)	-	137
Other income	2,620	2,620	1,510	(1,110)
TOTAL REVENUES	26,605	27,568	34,838	7,270
EXPENDITURES				
Administration costs	5,285	5,366	3,036	2,330
Professional services	143	143	225	(82)
Planning, survey and design	24,167	24,167	489	23,678
Acquisition costs	49,902	46,902	500	46,402
Operation of acquired property	4,687	4,687	2,365	2,322
Relocation costs	(23)	(23)	305	(328)
Relocation payments	(103)	(103)	2,939	(3,042)
Site clearance costs	(9)	(9)	86	(95)
Project improvement/construction costs	7,371	7,671	9,764	(2,093)
Disposal costs	(1,114)	(1,114)	-	(1,114)
Land purchases	(15,142)	(15,142)	26,318	(41,460)
Rehabilitation grants and loans	4,309	4,309	1,150	3,159
Furniture and equipment	100	100	6	94
Pass through's and ERAF payments	7,075	7,075	9,018	(1,943)
Debt issuance costs	-	920	920	-
Debt service payments:				
Bonds and notes payable-principal	1,676	1,676	1,676	-
U.S., State and other long-term debt principal	42	42	-	42
Interest payments	5,894	5,894	5,688	206
TOTAL EXPENDITURES	94,260	92,561	64,485	28,076
Deficiency of Revenues				
Under Expenditures	(67,655)	(64,993)	(29,647)	35,346
OTHER FINANCING				
SOURCES AND (USES)				
Proceeds from long term debt	(2,148)	24,997	27,145	2,148
Bond premium	-	-	2,263	2,263
Advance refunding	-	-	(28,476)	(28,476)
Transfers in (out), net	4,604	4,604	-	(4,604)
Payment to/from Redevelopment Agency	(305)	(305)	160	465
Transfer to the City	(1,033)	(1,033)	(2,000)	(967)
TOTAL OTHER FINANCING	1,118	28,263	(908)	(29,171)
Deficiency of Revenues and Other Sources				
Over Expenditures and Other Uses	(66,537)	(36,730)	(30,555)	6,175
Fund balance-October 1, budgetary basis	98,372	98,372	98,372	-
Encumbrances, beginning of the Year	785	785	785	-
FUND BALANCE - SEPTEMBER 30, BUDGETARY BASIS	\$ 32,620	\$ 62,427	\$ 68,602	\$ 6,175

See accompanying independent auditors' report.

Redevelopment Agency of the City of Long Beach
(A Component Financial Reporting Unit of the City of Long Beach, California)
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
Year Ended September 30, 2006
(In Thousands)

	Housing Fund			Variance with
	Budgeted Amounts		Actual on	Final Budget
	Original	Final	Budgetary	Positive
			Basis	(Negative)
REVENUES				
Interest income	\$ -	\$ -	\$ 2,968	\$ 2,968
TOTAL REVENUES	-	-	2,968	2,968
EXPENDITURES				
Debt service payments:				
Bonds and notes payable-principal	645	645	645	-
Interest payments	2,874	2,874	3,006	(132)
TOTAL EXPENDITURES	3,519	3,519	3,651	(132)
Deficiency of Revenues				
Under Expenditures	(3,519)	(3,519)	(683)	2,836
OTHER FINANCING				
SOURCES AND (USES)				
Transfer to the City	(25,400)	(25,400)	(14)	25,386
Transfer from the City	3,519	3,519	3,411	(108)
TOTAL OTHER FINANCING				
SOURCES (USES)	(21,881)	(21,881)	3,397	25,278
Excess (deficiency) of Revenues and Other Sources				
Over Expenditures and Other Uses	(25,400)	(25,400)	2,714	28,114
Fund balance-October 1, budgetary basis	55,150	55,150	55,150	-
FUND BALANCE - SEPTEMBER 30, BUDGETARY BASIS	\$ 29,750	\$ 29,750	\$ 57,864	\$ 28,114

See accompanying independent auditors' report.

Redevelopment Agency of the City of Long Beach
(A Component Financial Reporting Unit of the City of Long Beach, California)
Supplementary Financial Information
September 30, 2006

Supplementary Note: Reconciliation of Actual Revenues and Expenditures to the Non-GAAP Budgetary Basis

Budget information is presented on a non-GAAP budgetary basis, for the Capital Project and Debt Service Funds as well as the Low- and Moderate-Income Housing Fund, wherein appropriations represent budgeted amounts to be expended or encumbered during the period as presented on the Statement of Revenues, Expenditures, and Changes in Fund Balance Budget and Actual, pages 62 – 64.

Budgeted revenue amounts represent the original budget modified by adjustments authorized during the year. Budgeted expenditure amounts represent original appropriations adjusted for supplemental appropriations during the year, which were contingent upon new, or additional revenue sources. Total expenditures of each governmental fund may not legally exceed fund appropriations.

The following reconciles actual revenues and expenditures for Agency funds to the non-GAAP budgetary basis by fund type for the fiscal year ended September 30, 2006 (in thousands):

	Capital Project Funds	Debt Service Funds	Total
Beginning fund balance at October 1, 2005, on an actual GAAP basis	\$ 102,451	\$ 220,384	\$ 322,835
Encumbrances outstanding at October 1, 2005	(851)	-	(851)
Cumulative effect of capitalization of land held for resale at October 1, 2005	(72,956)	-	(72,956)
Beginning fund balance at October 1, 2005, on a budgetary basis	28,644	220,384	249,028
Actual GAAP basis revenue	5,263	78,780	84,043
Adjustment to GAAP basis revenues:			
Proceeds from the sale of land for resale	1,434	-	1,434
Gain on sale of land held for resale	(716)	-	(716)
Revenues on a budgetary basis	5,981	78,780	84,761
Actual GAAP basis expenditures	35,648	42,874	78,522
Adjustments to GAAP basis expenditures:			
Encumbrances outstanding at October 1, 2005	(851)	-	(851)
Encumbrances outstanding at September 30, 2006	732	-	732
Current effect of capitalization of land held for resale	44,267	-	44,267
Expenditures on a budgetary basis	79,796	42,874	122,670
Excess of revenues over (under) expenditures on a budgetary basis	(73,815)	35,906	(37,909)
Other financing sources (uses), on an actual GAAP basis	94,875	(94,711)	164
Other financing sources (uses) on a budgetary basis	94,875	(94,711)	164
Excess of revenues and other sources over (under) expenditures and other uses, on a budgetary basis	21,060	(58,805)	(37,745)
Ending fund balance at September 30, 2006, on a budgetary basis	\$ 49,704	\$ 161,579	\$ 211,283

Redevelopment Agency of the City of Long Beach
(A Component Financial Reporting Unit of the City of Long Beach, California)
Supplementary Financial Information
September 30, 2006

The following reconciles actual revenues and expenditures for the Low- and Moderate-Income Housing Fund to the non-GAAP budgetary basis for the fiscal year ended September 30, 2006 (in thousands):

Beginning fund balance at October 1, 2005, on an actual GAAP basis	\$20,544
Adjustment to record advances from the City of Long Beach	(17,219)
Cumulative effect of capitalization of land held for resale at October 1, 2005	<u>(995)</u>
Beginning fund balance at October 1, 2005, on a budgetary basis	<u>2,330</u>
Actual GAAP basis revenue	<u>17,894</u>
Revenues on a budgetary basis	<u>17,894</u>
Actual GAAP basis expenditures	<u>9,174</u>
Expenditures on a budgetary basis	<u>9,174</u>
Excess of revenues over (under) expenditures on a budgetary basis	<u>8,720</u>
Other financing sources (uses), on an actual GAAP basis	<u>(5,739)</u>
Other financing sources (uses) on a budgetary basis	<u>(5,739)</u>
Excess of revenues and other sources over expenditures and other uses, on a budgetary basis	<u>2,981</u>
Ending fund balance at September 30, 2006, on a budgetary basis	<u><u>\$ 5,311</u></u>

(A Component Financial Reporting Unit of the City of Long Beach, California)
Schedule of Changes in Long-Term Debt
Year Ended September 30, 2006
(In Thousands)

	Balance September 30 2005	Additions	Deductions	Balance September 30 2006
<u>Poly High Project</u>				
Bonds-Tax Allocation Bonds 2002	\$ 1,278	\$ -	\$ 158	\$ 1,120
Bonds-Tax Allocation Bonds 2005A-2	2,558	-	-	2,558
Total	3,836	-	158	3,678
<u>West Beach Project</u>				
Bonds-Tax Allocation Bonds 2002	7,757	-	435	7,322
Bonds-Tax Allocation Bonds 2005A-2	839	-	-	839
Total	8,596	-	435	8,161
<u>West Long Beach Ind'l Proj.</u>				
Bonds-Tax Allocation Bonds 1992	17,345	-	920	16,425
Bonds-Tax Allocation Bonds 2002B	19,775	-	115	19,660
Total	37,120	-	1,035	36,085
<u>Downtown Project</u>				
Bonds-Tax Allocation Bonds 1992A	38,520	-	2,045	36,475
Bonds-Tax Allocation Bonds 2002A	24,597	-	7,946	16,651
Bonds-Tax Allocation Bonds 2002B	22,615	-	-	22,615
Bonds-Tax Allocation Bonds 2005C	-	7,900	20	7,880
419 West Broadway, LLC-West Gateway	1,450	-	-	1,450
Total	87,182	7,900	10,011	85,071
<u>Los Altos Project</u>				
Bonds-Tax Allocation Bonds 2005A-1	4,685	-	255	4,430
Notes-Los Angeles County-Share of Tax Increment: Principal	1,612	218	-	1,830
Interest Payable	230	65	-	295
Notes-Los Angeles County Office of Education- Share of Tax Increment: Principal	13	2	-	15
Interest Payable	2	-	-	2
Total	6,542	285	255	6,572
<u>Central Long Beach Proj</u>				
Bonds-Tax Allocation Bonds 2005A-1	22,690	-	265	22,425
Bonds-Tax Allocation Bonds 2005B	34,240	-	400	33,840
Total	56,930	-	665	56,265
<u>North Long Beach Project</u>				
Bonds-Tax Allocation Bonds 2002	38,799	-	27,629	11,170
Bonds-Tax Allocation Bonds 2005A-1	39,000	-	627	38,373
Bonds-Tax Allocation Bonds 2005B	25,080	-	403	24,677
Bonds-Tax Allocation Bonds 2005C	-	27,145	-	27,145
Total	102,879	27,145	28,659	101,365
<u>Housing Fund</u>				
Bonds-Tax Allocation Bonds 2005B	55,665	-	645	55,020
Total	55,665	-	645	55,020
TOTAL AGENCY LONG-TERM DEBT	\$ 358,750	\$ 35,330	\$ 41,863	\$ 352,217
Long-term Indebtedness is summarized as follows:				
Notes	\$ 3,307	\$ 285	\$ -	\$ 3,592
Bonds	355,443	35,045	41,863	348,625
Total	\$ 358,750	\$ 35,330	\$ 41,863	\$ 352,217

See accompanying independent auditors' report.

Auditor's Report on Compliance



KPMG LLP
Suite 2000
355 South Grand Avenue
Los Angeles, CA 90071-1568

**Report on Internal Control over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial Statements Performed in
Accordance With *Government Auditing Standards***

The Honorable Members of the Redevelopment Agency Board
The Honorable Mayor and City Council of the City of Long Beach, California
The Citizens of the City of Long Beach, California:

We have audited the financial statements of the governmental activities and each major fund of the Redevelopment Agency of the City of Long Beach (the Agency), a component financial reporting unit of the City of Long Beach, California (the City) and of the Low- and Moderate-Income Housing Fund as of and for the year ended September 30, 2006, which collectively comprise the Agency's combined financial statements, and have issued our report thereon dated January 31, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Agency's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the combined financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's combined financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Mayor of the City, the City Council, and management, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

January 31, 2007

General Information

**DOWNTOWN REDEVELOPMENT PROJECT AREA
COMPARISON OF GOALS FOR FY 2005-2006
WITH ACCOMPLISHMENTS FOR FY 2005-2006**

GOAL #1

Encourage commercial development in the Downtown in conformance with the Redevelopment Plan and Downtown Strategy for Development.

- Provide incentives to appropriate retailers to locate in Downtown.
- Implement D'Orsay Hotel OPA (Long Beach Plaza Associates).

ACCOMPLISHMENTS

- Worked in partnership with Downtown Long Beach Associates and the City's Economic Development Bureau to provide incentive packages for appropriate retailers to establish on Pine Avenue.
- Worked with D'Orsay Hotel to approve project revisions so that project can move forward.
- Participated in City Hall East developer selection to ensure appropriate development for this key Downtown crossroads.
- Assisted with the creation of a Downtown Entertainment District.

GOAL #2

Encourage residential development in the Downtown in conformance with the Redevelopment Plan and the Downtown Strategy for Development.

- Implement DDAs for Promenade sites with The Olson Company, Lyon Realty Advisors, and Lennar Southcoast.
- Implement DDAs for West Gateway Projects with The Olson Company, Lennar Southcoast, Lyon Realty Advisors, and Jamboree Housing Company.
- Implement CityPlace OPA for 3rd Street Lofts and for 4th Street Lofts.
- Assist with development of the Press-Telegram block.
- Assist with development of the Post Office block.
- Negotiate OPA/DDA for a mixed-use project at Ocean Boulevard and Alamitos Avenue.
- Negotiate OPA/DDA for mixed-use projects along Long Beach Boulevard between 1st Street and 3rd Street.

ACCOMPLISHMENTS

- Continued construction on The Olson Company Promenade project.
- Executed DDAs for Lennar Southcoast's and Lyon Realty Advisors' Promenade projects and commenced construction on Lennar development.
- Completed Insurance Exchange Project.
- Commenced construction on Jamboree Housing Company project in the West Gateway area.

- Executed West Gateway DDAs with The Olson Company and Lennar Southcoast; cleared sites; and began utility relocation work.
- Completed 4th Street Lofts Phase 1 construction with Phase II well underway.
- Commenced construction on the Standard Pacific lofts north of the Post Office.
- Executed Owner Participation Agreement for a mixed-use project known as Shoreline Gateway at Ocean Boulevard and Alamitos Avenue and commenced site assembly.
- Executed Exclusive Negotiation Agreements for the development of the block bordered by 6th and 7th Streets and Pine and Pacific Avenues.
- Provided staff input into the development of the Press Telegram block.
- Completed design review on Cedar Court.
- Issued Certificate of Completion for Aqua.

GOAL #3

Pursue planning initiatives in conformance with the Redevelopment Plan and Downtown Strategy for Development.

- Implement recommendations of the Downtown Parking Study.
- Participate in comprehensive revision of PD-30 Zoning for height and density flexibility and for mixed-use project standards.

ACCOMPLISHMENTS

- Enhanced directional signage to Downtown parking.
- Enhanced parking garage signage.
- Replaced Promenade parking removed for new development.
- Commissioned a three-dimensional model of Downtown to assist with the assessment of development options.
- Revised PD-30 to change density requirements for Mixed Use areas and to allow flexibility in building height.
- Participated in the General Plan update process.
- Released RFP and began developer selection for the development of land, including public parking garage, generally bordered by 3rd and 4th Streets and Pine and Pacific Avenues.
- Executed Exclusive Negotiation Agreement for development of half block along Long Beach Boulevard between 1st Street and Broadway including public parking garage.
- Completed Master EIR for Downtown projects.

GOAL #4

Support activities that foster an inviting, safe pedestrian environment in the Downtown.

- Contribute to Downtown marketing efforts.
- Continue support for alley cleaning.
- Support weekly Farmers' Market and Craft Fair.

- Begin construction of open space and pedestrian linkages through the West Gateway Area to The Promenade and Long Beach Boulevard.

ACCOMPLISHMENTS

- Continued public information program on changes in Downtown parking.
- Continued support for alley cleaning.
- Supported the relocation of the Farmers' Market and Craft Fair to City Place.
- Completed design of open space and pedestrian linkages through the West Gateway Area to The Promenade and Long Beach Boulevard.
- Relocated the Bikestation.

GOAL #5

Support the development of affordable housing in Long Beach.

- Transfer 20% of available project area tax increment to the Housing Development Fund.

ACCOMPLISHMENTS

- Transferred 20% of available increment to the Housing Development Fund.
- Incorporated workforce housing provisions into Disposition and Development Agreements for the West Gateway Project.

GOAL #6

Serve as staff support to various committees and organizations.

- Provide staff support for the Downtown Property Based Improvement District (PBID) and the Downtown Long Beach Associates (DLBA).
- Provide staff support to the Pine Avenue Task Force and to the Downtown Business Advisory Committee.

ACCOMPLISHMENTS

- Attended DLBA meetings to report on Redevelopment activities.
- Participated in Pine Avenue Task Force meetings.
- Participated in Downtown Public Right of Way meetings.

**DOWNTOWN REDEVELOPMENT PROJECT AREA
GOALS FOR FY 2006-2007**

- (1) Encourage commercial development in the Downtown in conformance with the Redevelopment Plan and Downtown Strategy for Development.**

 - Provide incentives to appropriate retailers to locate in Downtown.
 - Continue to facilitate development of the D'Orsay Hotel.
 - Provide support for the redevelopment of the block at Long Beach Boulevard and 3rd Street.
 - Implement mixed-use projects (see Residential Development below).
- (2) Encourage residential development in the Downtown in conformance with the Redevelopment Plan and the Downtown Strategy for Development.**

 - Implement DDAs for Promenade sites with The Olson Company, Lyon Realty Advisors, and Lennar Southcoast.
 - Implement DDAs for West Gateway Projects with The Olson Company, Lennar Southcoast, and Jamboree Housing Company.
 - Implement CityPlace OPA for 4th Street Lofts.
 - Assist with development of the Press-Telegram block.
 - Implement OPA for a mixed-use project at Ocean Boulevard and Alamitos Avenue.
 - Implement OPA for mixed-use project along Long Beach Boulevard between 1st Street and Broadway.
 - Implement OPA for Cedar Court.
 - Negotiate development agreements for the block bordered by 6th and 7th Streets and Pine and Pacific Avenues.
- (3) Pursue planning initiatives in conformance with the Redevelopment Plan and Downtown Strategy for Development.**

 - Implement recommendations of the Downtown Parking Study.
 - Participate in a comprehensive revision of PD30 Zoning for height and density flexibility and for mixed-use project standards.
 - Continue participation in General Plan update.
 - Negotiate development agreement for the block bordered by 3rd and 4th Streets and Pine and Pacific Avenues, including a public parking garage.
- (4) Support activities that foster an inviting, safe pedestrian environment in the Downtown.**

 - Contribute to Downtown marketing efforts.
 - Support the weekly Farmers' Market and Craft Fair.
 - Begin construction of open space and pedestrian linkages through the West Gateway Area to The Promenade and Long Beach Boulevard.

- (5) **Support the development of affordable housing in Long Beach.**
 - Transfer 20% of available project area tax increment to the Housing Development Fund.
- (6) **Serve as staff support to various committees and organizations.**
 - Provide staff support for the Downtown Property Based Improvement District (PBID) and the Downtown Long Beach Associates (DLBA).
 - Provide staff support to the Pine Avenue Task Force and the Downtown Business Advisory Committee.

**WEST BEACH REDEVELOPMENT PROJECT AREA
COMPARISON OF GOALS FOR FY 2005-2006
WITH ACCOMPLISHMENTS FOR FY 2005-2006**

Goal #1

Continue to support development of the West Ocean commercial corridor.

- Continue to assist private sector developments in the Project Area in conformance with the Redevelopment Plan and Downtown Strategy for Development.

ACCOMPLISHMENT

- Staff has continued to assist private sector initiatives in the Project Area that conform to the Redevelopment Plan and Downtown Strategy for Development.

Goal #2

Support the development of affordable housing in Long Beach.

- Transfer 20% of available project area tax increment to the Housing Development Fund.

ACCOMPLISHMENT

- The Housing Development Fund has received 20% of available increment.

Goal #3

Serve as staff support to various committees and organizations.

- Provide staff support for the Downtown Property Based Improvement District (PBID) and the Downtown Long Beach Associates (DLBA).

ACCOMPLISHMENT

- Agency staff has continued to provide support to a variety of committees and organizations, including the DLBA and the Arts Council.

Goal #4

Provide additional recreation opportunities or other infrastructure improvements to benefit the project area.

- Assist with infrastructure improvements that benefit the project area.

ACCOMPLISHMENT

- Staff has provided support to the City of Long Beach in developing plans to redesign Lincoln Park.

**WEST BEACH PROJECT AREA
GOALS FOR FY 2006-2007**

- (1) Continue to support development of the West Ocean commercial corridor.**
 - Continue to assist private sector developments in the Project Area in conformance with the Redevelopment Plan and Downtown Strategy for Development.
- (2) Support the development of affordable housing in Long Beach.**
 - Transfer 20% of available project area tax increment to the Housing Development Fund.
- (3) Serve as staff support to various committees and organizations.**
 - Provide staff support for the Downtown Property Based Improvement District (PBID) and the Downtown Long Beach Associates (DLBA).
- (4) Provide additional recreation opportunities or other infrastructure improvements to benefit the project area.**
 - Assist with infrastructure improvements that benefit the project area.

**WEST LONG BEACH INDUSTRIAL PROJECT AREA
COMPARISON OF GOALS FOR FY 2005-2006
WITH ACCOMPLISHMENTS FOR FY 2005-2006**

GOAL #1

Facilitate the replanning, redesign and redevelopment of the Project Area.

- Continue to Implement the West Long Beach Industrial Strategy Action Plan.
- Work with PAC and the Public Works Department to identify and address local flood control issues.
- Work with PAC to address priorities for undergrounding of utilities and abandonment of alleys.
- Work with PAC to address priorities for acquisition through voluntary sales of available motel/residential and other remaining nonconforming properties.
- Work with PAC to address truck and parking issues.

ACCOMPLISHMENTS

- Worked with the Public Works Department to hire DMJM Harris, an engineering firm, to research, design and prepare construction plans as Phase 1 of the Westside Storm Drain Improvement Project.
- Examined alternatives to control truck parking on local streets.
- Worked with the PAC to help coordinate a survey and distribute information to truck drivers and the public regarding the Oversize Vehicle Parking Ordinance for Pacific Coast Highway.

GOAL #2

Contribute to project area revitalization.

- Facilitate removal and conversion of non-conforming residential uses to industrial uses.
- Implement Agency approved Disposition and Development Agreements and Owner Participation Agreements.
- Revised the Exterior Improvement Program (EIP).
- Facilitate relocation and retention of existing businesses in West Long Beach.

ACCOMPLISHMENTS

- Monitor construction of new industrial projects approved under Disposition and Development Agreements including:
 - Long Beach Iron Works at northwest corner of 14th Street and Hayes Avenue (Site Q1)
 - JCDS, Sudduth Tire Company at 2001 West Anaheim Street (Site Q2)
 - Roberts Construction at 2151 West Gaylord Street (Site K)
 - Roberts Construction at 2115 West 16th Street (Site L)
 - Smith-Co Construction at North West Corner of Hayes Avenue and 14th Street (Site F)
 - JC Express at 2001-2011 West Cowles Street (Site B)

- Purchased and installed surveillance cameras to deter dumping in Westside Project Area.
- Removed visual blight by screening roof top equipment at the Police Crime Laboratory at 1400 Canal Avenue.
- Coordination with Southern California Edison Company to consider the relocation of existing power poles in the Project Area.

GOAL #3

Strengthen the economic base of the Project Area.

- Issue Annual Request for Proposals for available Agency-owned properties.
- Encourage growth and development of small businesses in West Long Beach.
- Support projects that provide for expanded industrial development and additional employment opportunities.
- Reserved \$300,000 in loan funds to assist Westside businesses to acquire new properties.

ACCOMPLISHMENTS

- Issued Annual Request for Proposals for the following available Agency-owned properties.
 - 1709 Santa Fe Avenue (Site H)
 - 2110 West Cowles Street (Site E)
 - 2136 West 16th Street (Site T)
- Entered into Exclusive Negotiation Agreements with the following: Redbarn Pet Products at 2110 West Cowles Street (Site E); Dream Space Productions at 1709 Santa Fe Avenue (Site H); PAC Design at 1881 and 1891 West 16th Street (Site R); and Marinus Scientific at 1662-1666 Seabright Avenue (Site S).
- Provided funding for economic development activities in West Long Beach.
- Provided funding for small business assistance programs in West Long Beach.
- Provided funding for environmental clean up of Site Q1, including re-abandonment of a closed oil well.
- Created 53,000 sq. ft. of new construction.
- Created 17 new jobs in the West Long Beach Industrial Redevelopment Project Area.

GOAL #4

Provide staff support to various committees and organizations.

- Continue to provide staff support to the West Long Beach Subcommittee.
- Continue to provide staff support and funding to the Westside Project Area Committee.
- Continue to provide staff support in implementing the Industrial Strategy Action Plan.
- Formation of the Westside Business Industrial Coordinating Committee (WBIC) and facilitation of meetings to discuss Westside issues.

ACCOMPLISHMENTS

- Continued to provide staff support to the West Long Beach Subcommittee.
- Continued to provide staff support and funding to the Westside Project Area Committee.
- Formed the Westside Business Industrial Coordinating Committee to improve coordination between the Agency, Port of Long Beach, CSULB Technology Park and the Magnolia Industrial Group.

GOAL #5

Support the development of affordable housing in Long Beach.

- Transfer 20% of project area tax increment to the Housing Development Fund.

ACCOMPLISHMENT

- The Housing Development Fund has received 20% of available tax increment.

**WEST LONG BEACH INDUSTRIAL PROJECT AREA
GOALS FOR FY 2006-2007**

- (1) Facilitate the replanning, redesign and redevelopment of the Project Area.**
 - Implement the Industrial Strategy Action Plan.
 - Revise the Targhee Westside Basin Study in cooperation with the Regional Water Quality Control Board.
 - Study the opportunities for undergrounding utilities and providing fiber-optic cable service.

- (2) Contribute to project area revitalization.**
 - Facilitate removal and conversion of non-conforming residential and motel uses to industrial uses.
 - Implement Agency approved Disposition and Development Agreements and Owner Participation Agreements.
 - Implement the revised Exterior Improvement Program (EIP).
 - Explore the expansion of the EIP along major corridors.
 - Enhance the pedestrian environment.
 - Complete project design of the Westside Storm Drain Improvement project.
 - Explore feasibility of Canal-Caspian diagonal parking demonstration project.
 - Increase street and alley security through additional lighting and surveillance equipment.

- (3) Strengthen the economic base of the Project Area.**
 - Issue Annual Request for Proposals for available Agency-owned properties.
 - Support projects that provide for expanded industrial development and additional employment opportunities.
 - Provide funding for small business assistance programs in West Long Beach.
 - Provide funding for economic development activities in West Long Beach.
 - Provide opportunities to retain existing businesses in West Long Beach.

- (4) Provide staff support to various committees and organizations.**
 - Continue to provide staff support to the West Long Beach Subcommittee.
 - Continue to provide funding and staff support to the West Long Beach Project Area Committee.
 - Provide staff support to the Westside Business Industrial Coordinating Committee (WBICC).

- (5) Support the development of affordable housing in Long Beach.**
 - Transfer 20% of project area tax increment to the Housing Development Fund.

**POLY HIGH REDEVELOPMENT PROJECT AREA
COMPARISON OF GOALS FOR FY 2005-2006
WITH ACCOMPLISHMENTS FOR FY 2005-2006**

GOAL #1

Preserve the public amenities created as part of the redevelopment of the Poly High Project Area.

ACCOMPLISHMENT

- Acquired property at Atlantic Avenue and Pacific Coast Highway to eliminate blight and allow for traffic improvements and open space development.

GOAL # 2

Continue to support the development of affordable housing by transferring 20% of project area tax increment to the Housing Development Fund.

ACCOMPLISHMENT

- Transferred 20% of project area tax increment to the Housing Development Fund.

GOAL #3

Eliminate and prevent blight along the Project Area's commercial corridors.

ACCOMPLISHMENT

- Acquired property at Atlantic Avenue and Pacific Coast Highway to eliminate blight and allow for traffic improvements and open space development.

**POLY HIGH REDEVELOPMENT PROJECT AREA
GOALS FOR FY 2006-2007**

- (1) Preserve the public amenities created as part of the redevelopment of the Poly High Project Area.**
 - Assist in the development of public infrastructure and open space development projects.
- (2) Continue to support the development of affordable housing by transferring 20% of project area tax increment to the Housing Development Fund.**
 - Provide 20% of project area tax increment for the development of affordable housing.
- (3) Eliminate and prevent blight along the Project Area's commercial corridors.**
 - Acquire or provide rehabilitation assistance for commercial properties on Pacific Coast Highway.
 - Explore the possibility of joint development of sites along Pacific Coast Highway with the Long Beach Unified School District.

**LOS ALTOS REDEVELOPMENT PROJECT AREA
COMPARISON OF GOALS FOR FY 2005-2006
WITH ACCOMPLISHMENTS FOR FY 2005-2006**

GOAL #1

Fully meet all of the financial obligations of the Project Area.

- Use all sales tax revenues for repayment of the loan from the West Long Beach Industrial Redevelopment Project Area.
- Use all tax increment, less expenses for project area administration, housing set aside, and public art maintenance, for repayment of the loan from the West Long Beach Industrial Redevelopment Project Area.

ACCOMPLISHMENTS

- Used 2005 tax allocation bond proceeds to eliminate almost 50% of the principal of the loan to the West Long Beach Industrial Project Area.
- Used sales tax revenue to provide payments to the West Long Beach Industrial Project Area.

GOAL #2

Support the development of affordable housing in Long Beach.

- Transfer 20% of available project area tax increment to the Housing Development Fund.

ACCOMPLISHMENTS

- Transferred 20% of available project area tax increment to the Housing Development Fund.

GOAL#3

Preserve the public amenities created as part of the redevelopment of the Los Altos Shopping Center.

- Maintain reserve for capital replacement.

ACCOMPLISHMENTS

- Public amenities did not require expenditures maintenance in FY05-06.

**LOS ALTOS PROJECT AREA
GOALS FOR FY 2005-2006**

- (1) Fully meet all of the financial obligations of the Project Area.**
 - Use sales tax revenue and tax increment for bond debt service, administrative expenses, public art maintenance, and repayment of the loan from the West Long Beach Industrial Project Area.
- (2) Support the development of affordable housing in Long Beach.**
 - Transfer 20% of available project area tax increment to the Housing Development Fund.
- (3) Preserve the public amenities created as part of the redevelopment of the Los Altos Shopping Center.**
 - Maintain reserve for capital replacement.

**CENTRAL LONG BEACH REDEVELOPMENT PROJECT AREA
COMPARISON OF GOALS FOR FY 2005-2006
WITH ACCOMPLISHMENTS FOR FY 2005-2006**

GOAL #1

Facilitate the replanning, redesign and redevelopment of the Project Area.

- Implement the Strategic Guide for Development for the Central Study Area.
- Implement the Willmore District Implementation Plan.
- Develop the Central Long Beach Design Guidelines.
- Update Atlantic Avenue Master Plan.
- Identify priority sites for redevelopment consistent with the Strategic Guide.
- Support the revision of planned development district ordinances to further redevelopment efforts in the Project Area.
- Continue to identify and provide solutions for blighting influences.
- Continue to explore alternative funding sources that would assist in funding future development of the Central Project Area.

ACCOMPLISHMENTS

- Initiated the implementation strategies for the eight targeted Neighborhood Centers for concentrated redevelopment activities as identified in the Central Long Beach Strategic Guide for Development.
- Incorporated the recommendations identified in the Central Design Guidelines into all new construction projects in the Project Area.
- Identified and acquired sites for historic home relocation as identified in the Willmore District Implementation Plan.
 - 539-543 Daisy Avenue
 - 226 West 10th Street
 - 326 West 10th Street
 - 618 Chestnut Avenue
- Revised the Downtown and East Village planned development district ordinance (PD-30).
- Completed site acquisition of targeted blighted parcels to allow for future development opportunities.
 - 1500 Alamos Avenue
 - 1500 East Anaheim Street
 - 1501 East Anaheim Street
- Leveraged project area funds with local, state and federal funds to support projects and initiatives.
 - Menorah Senior Housing Project
 - Atlantic Avenue Façade Program
 - Renaissance Square – Second Floor Improvements

GOAL #2

Contribute to neighborhood revitalization.

- Continue redevelopment efforts along commercial corridors including transit-oriented developments.
- Encourage human-scale, pedestrian-oriented developments.
- Encourage neighborhood identity initiatives.
- Support the preservation and enhancement of historic districts.
- Support the development and expansion of open space.
- Develop programs for enhancing and rehabilitating existing housing stock.
- Continue to facilitate and encourage homeownership opportunities.
- Develop initiatives to reduce density in overcrowded neighborhoods.
- Facilitate the development of the Mark Twain Library.

ACCOMPLISHMENTS

- Identified target properties at 20th Street and Atlantic Avenue for participation in the Commercial Façade Improvement Program.
- Provided funding to support targeted code enforcement activities in the Wrigley and Hellman neighborhoods.
- Completed site assembly for the development of an affordable senior housing development on Atlantic Avenue at Vernon Street.
- Provided funding to support land assembly for the expansion and development of open space and recreational opportunities throughout the Project Area.
 - Orizaba Park
 - Drake Park
 - Pacific Electric Right-of-Way
 - California Recreation Senior Center
- Completed the construction of Daryle W. Black Memorial Park.

GOAL #3

Strengthen the economic base of the Project Area.

- Encourage small business growth and development.
- Support and encourage business assistance programs that focus on Central Long Beach businesses.
- Provide funding for economic development activities in Central Long Beach.
- Support projects that provide for expanded business development and additional employment opportunities.

ACCOMPLISHMENTS

- Assisted in the expansion of Faith Chapel Mortuary, 1870 Atlantic Avenue.
- Assisted in the development of business recruitment and retention initiatives throughout the Project Area.
- Provided funding to support economic development activities in the Project Area.
- Assisted in the implementation of the St. Mary and Memorial Hospitals' long-range strategic plans.
- Supported the expansion of Memorial Hospital.

GOAL #4

Continue to support the implementation of the East Village Guide for Development.

- Support the long-range strategic planning of the East Village Arts District.
- Assist in the adaptive reuse of existing structures.
- Facilitate the development of an arts entertainment complex.
- Administer the East Village Artist Loan Program to assist in the development of artist live/work units and studio space.

ACCOMPLISHMENTS

- Continued facilitating the adaptive reuse of existing structures and development of new buildings that enhance the East Village Arts District.
 - 837 East 7th Street
 - 825 East 7th Street
- Monitored the process of selling the eight affordable units in the Lofts on 4th residential project located at the southwest corner of 4th Street and Alamos Avenue.
- Assisted in the predevelopment of a new 30-unit residential development located at 125 Linden Avenue.
- Incorporated the development of the East Village Art Exchange in the 1st and Long Beach Boulevard Request for Proposals.

GOAL #5

Continue the development of the West Gateway District.

- Work with developers, after selection, to establish a residential community in West Gateway.

ACCOMPLISHMENTS

- Selected four residential developers to construct over 600 residential units in West Gateway:
 - Jamboree Housing
 - Lennar Communities
 - The Olson Company
 - Lyon Development
- Began construction of Puerto del Sol (Jamboree Housing) – 64 workforce-housing units.
- Prepared the site for the development of three residential projects along Broadway between Maine and Chestnut Avenues.
- Completed the West Gateway Landscaping Master Plan.

GOAL #6

Serve as staff support to various committees and organizations.

- Continue to provide staff support to the Central Project Area Committee.
- Continue to provide staff support to the East Village Steering Committee.
- Continue to liaison with the Public Corporation for the Arts in implementing new public art.
- Continue to explore alternative funding sources that would assist in funding future development of the Central Project Area.

ACCOMPLISHMENTS

- Continued support of the East Village Association.
- Continued providing staff support to the Central Project Area Committee.
- Assisted in preparing the CDBG Open Space Bond proposal for City Council consideration.

GOAL #7

Support the Long Beach Unified School District's efforts to identify school sites to relieve overcrowding in the Project Area.

ACCOMPLISHMENTS

- Assisted in the identification of proposed school sites along Pacific Coast Highway and along Long Beach Boulevard.
- Identified sites for potential school expansions in the Central Long Beach Strategic Guide for Development.

GOAL #8

Support the development of affordable housing in Long Beach.

- Transfer 20% of available project area tax increment to the Housing Development Fund.

ACCOMPLISHMENTS

- Provided 20% of the available project area tax increment to the Housing Development Fund.
- Assisted in the developer selection for a 58-unit affordable housing project located at 2000-2200 Atlantic Avenue.
- Assisted in the development and implementation of the Housing Action Plan.

**CENTRAL LONG BEACH REDEVELOPMENT PROJECT AREA
GOALS FOR FY 2006-2007**

- (1) Facilitate the replanning, redesign and redevelopment of the Project Area.**
 - Implement the Strategic Guide for Development for the Central Study Area.
 - Implement the Willmore District Implementation Plan.
 - Implement the Central Long Beach Design Guidelines.
 - Update Atlantic Avenue Master Plan.
 - Support the long-range strategic planning of Long Beach Boulevard.
 - Identify priority sites for redevelopment consistent with the Strategic Guide.
 - Support the revision of planned development district ordinances to further redevelopment efforts in the Project Area.

- (2) Contribute to neighborhood revitalization.**
 - Continue redevelopment efforts along commercial corridors including transit-oriented developments.
 - Encourage human-scale, pedestrian-oriented developments.
 - Support the preservation and enhancement of historic districts.
 - Support the development and expansion of open space.
 - Support the development of public infrastructure improvements.
 - Develop programs for enhancing and rehabilitating existing housing stock.
 - Continue to facilitate and encourage homeownership opportunities.
 - Develop initiatives to reduce density in overcrowded neighborhoods.

- (3) Strengthen the economic base of the Project Area.**
 - Support the recruitment, retention and expansion of project area businesses.
 - Support and encourage business assistance programs that focus on Central Long Beach businesses.
 - Provide funding for economic development activities in Central Long Beach.
 - Support the implementation of St. Mary and Memorial Hospital's master plans.

- (4) Continue to support the implementation of the East Village Guide for Development.**
 - Support the long-range strategic planning of the East Village Arts District.
 - Facilitate the adaptive reuse of existing structures.
 - Facilitate the development of an arts entertainment complex.
 - Administer the East Village Artist Loan Program to assist in the development of artist live/work units and studio space.

- (5) Continue the development of the West Gateway district.**
 - Work with selected developers to establish a cohesive residential community.
 - Complete site assembly for targeted blocks and in-fill sites.
 - Implement the streetscape master plan.
 - Monitor construction.

- (6) **Serve as staff support to various committees and organizations.**
 - Continue to provide staff support to the Central Project Area Committee.
 - Continue to provide staff support to the East Village Steering Committee.
 - Continue to liaison with the Arts Council for Long Beach in implementing new public art.
- (7) **Support the Long Beach Unified School District**
 - Support joint-use agreements to increase open space and recreational opportunities.
- (8) **Support the development of affordable housing in Long Beach.**
 - Transfer 20% of available project area tax increment to the Housing Development Fund.
 - Continue to identify future opportunities for affordable housing within Housing Action Plan target areas.
 - Assist in site assembly to support affordable housing developments.
 - Support opportunities to incorporate affordable housing in residential or mixed-use developments.

**NORTH LONG BEACH PROJECT AREA
COMPARISON OF GOALS FOR FY 2005-2006
WITH ACCOMPLISHMENTS FOR FY 2005-2006**

GOAL #1

Facilitate the replanning, redesign and redevelopment of the Project Area.

- Implement the North Long Beach Strategic Guide for Redevelopment.
- Implement the North Long Beach Street Enhancement Master Plan.
- Implement the Village Center and Historic Node Implementation Plan.
- Implement results of the Community Needs Assessment.
- Implement the North Long Beach Design Guidelines.
- Implement the Bixby Knolls Design Guidelines.
- Implement the Commercial Facade Improvement Program.
- Identify priority sites for redevelopment consistent with the Strategic Guide.
- Work with the Planning and Building Department to revise General Plan and Zoning Ordinance for consistency with the Strategic Guide and Street Enhancement Master Plan.

ACCOMPLISHMENTS

- Continued working with Planning and Building Department towards revising General Plan and Zoning Ordinance for consistency with Strategic Guide.
- Completed four commercial façade projects:
 - 1707-1727 South Street
 - 4320 Atlantic Avenue
 - 4335 Atlantic Avenue
 - 4343 Atlantic Avenue
- Acquired three properties in the Village Center for use as parking:
 - 5564 Atlantic Avenue
 - 5648 Atlantic Avenue
 - 5722-5730 Linden Avenue
- Acquired 37 properties in the two northern blocks of the Village Center (i.e., the blocks bounded by Linden Avenue on the west, Lime Avenue on the east, 59th Street on the north and South Street on the south) for a future mixed-use development.

GOAL #2

Contribute to neighborhood revitalization.

- Implement the Commercial Facade Improvement Program.
- Provide median and/or streetscape improvements at Market Street and Long Beach Boulevard, the North Village and North Long Beach gateways.
- Provide funding for local street improvements (including curbs, gutters and sidewalks), storm drain improvements and other public works infrastructure.
- Facilitate the development of a new North Long Beach Library Branch.
- Add new public parking (i.e., North Village, Historic Core, Bixby Knolls)
- Facilitate the development of a new North Long Beach Community Center.
- Provide funding for the Grant, Lindbergh, Bret Harte and Deforest Park Neighborhood Enhancement Areas.
- Support neighborhood efforts to create beauty and pride.

- Identify opportunities for and facilitate development of additional and existing park open space.
- Support the preservation of buildings of historical or architectural significance.

ACCOMPLISHMENTS

- Completed construction of Paramount Boulevard median extension (Artesia Boulevard to 68th Street).
- Completed construction of new gateway medians on Long Beach Boulevard, Atlantic Avenue and Cherry Avenue.
- Completed design of streetscape improvements for the Historic Core at Market Street and Long Beach Boulevard.
- Completed design of streetscape improvements for the North Village at South Street and Atlantic Avenue.
- Completed reconstruction and replanting of four existing gateway median projects on Artesia Boulevard and Del Amo Boulevard.
- Awarded construction contracts to repave or reconstruct 26 streets in North Long Beach and completed construction (Areas C and D) consistent with the Street Enhancement Master Plan.
- Continued implementation of the North Long Beach Design Guidelines.
- Continued implementation of the Bixby Knolls Design Guidelines.
- Completed construction of a new mini-park at Plymouth Street and Elm Avenue.
- Completed construction of a new park on 55th Way.
- Provided funding for several Neighborhood Enhancement Areas (Jane Addams, Dairy, Coolidge Triangle, and Jordan neighborhoods).
- Supported neighborhood efforts to create beauty and pride through funding of Neighborhood Partners Program grants and funding of neighborhood murals, including the Orizaba Tunnel North Face Mural and Andy Street Mural.
- Completed acquisition of a blighted motel on Atlantic Avenue for new development.

GOAL #3

Strengthen the economic base of the Project Area.

- Revitalize commercial/retail areas consistent with the Strategic Guide for Redevelopment (i.e., former Home Base, Kmart and Bixby Knolls Center).
- Facilitate development of new commercial/retail areas consistent with the Strategic Guide for Redevelopment (i.e., Atlantic Boulevard Motel, Waite Motel, northeast corner of Atlantic Avenue and Artesia Boulevard).
- Provide funding for economic development activities in North Long Beach.
- Provide funding for small business assistance programs in North Long Beach.
- Support projects that provide for expanded business development and additional employment opportunities.

ACCOMPLISHMENTS

- Continued implementation of a Commercial Area Litter Abatement demonstration project.
- Continued implementation of a Commercial Area Graffiti Removal demonstration project.
- Provided funding for economic development activities in North Long Beach.
- Provided funding for small business assistance programs in North Long Beach.

- Worked with the PAC and the Economic Development Bureau to develop targeted business assistance programs and marketing activities in North Long Beach.

GOAL #4

Market the North Long Beach Community and provide community outreach.

- Develop and implement a marketing program to advertise the qualities of North Long Beach (i.e., North Village/Historic Core Newsletter, street banners, utility box art, anti-litter program, graffiti removal program).
- Extend community outreach to disenfranchised neighborhoods.
- Inform the public as to Market the vital role of Redevelopment in removing blight, reversing deterioration, building partnerships between local businesses and the community, implementing the community's vision, and strengthening neighborhoods
- Build partnerships with property owners and local businesses.
- Implement the community's vision and strengthen neighborhoods.
- Promote livable and walkable communities.

ACCOMPLISHMENTS

- Worked with PAC to implement marketing program for North Village and Historic Core including publication of North Village/Historic Core Newsletters, display of street banners, utility box art, anti-litter program and graffiti removal program.
- Assisted PAC with publication of four issues of the North PAC Review newsletter.

GOAL #5

Provide staff support to various committees and organizations.

- Continue to provide staff support to the North Long Beach Subcommittee.
- Continue to provide staff support to the North Long Beach Project Area Committee.

ACCOMPLISHMENTS

- Provided staff support to the North Long Beach Subcommittee.
- Provided staff support to the North Long Beach Project Area Committee.

GOAL #6

Support the development of affordable housing in Long Beach.

- Transfer 20% of project area tax increment to the Housing Development Fund.
- Acquire priority sites for new market rate housing.
- Promote quality housing development and home ownership opportunities.

ACCOMPLISHMENTS

- Transferred 20% of project area tax increment to the Housing Development Fund for the purpose of increasing or enhancing affordable housing in North Long Beach.
- Prioritized potential sites for development of new market rate housing and began site acquisition.

**NORTH LONG BEACH REDEVELOPMENT PROJECT AREA
GOALS FOR FY 2006-2007**

- (1) Facilitate the replanning, redesign and redevelopment of the Project Area.**
 - Implement the North Long Beach Strategic Guide for Redevelopment.
 - Implement the North Long Beach Street Enhancement Master Plan.
 - Implement the Village Center and Historic Node Implementation Plan.
 - Select a developer for negotiations for a mixed-use project, which covers two blocks of the Village Center.
 - Implement the North Long Beach Design Guidelines.
 - Implement the Bixby Knolls Design Guidelines.
 - Identify priority sites for redevelopment consistent with the Strategic Guide.
 - Work with the Planning and Building Department to revise the General Plan and Zoning Ordinance for consistency with the Strategic Guide.

- (2) Contribute to neighborhood revitalization.**
 - Implement the Commercial Facade Improvement Program in the North Village and Historic Core.
 - Complete approved streetscape improvements along North Long Beach corridors.
 - Complete approved street improvements in North Long Beach neighborhood corridors.
 - Add new public parking in the North Village and Historic Core.
 - Provide funding for the Neighborhood Enhancement Areas, including multi-family housing.
 - Support neighborhood efforts to create beauty and pride.
 - Facilitate development of additional park open space.
 - Support the preservation of buildings of key historical or architectural significance.

- (3) Strengthen the economic base of the Project Area.**
 - Revitalize commercial/retail areas consistent with the Strategic Guide (i.e., former Home Base and Bixby Knolls Shopping Center).
 - Facilitate development of new commercial/retail areas consistent with the Strategic Guide (i.e., Atlantic Boulevard Motel, Waite Motel, northeast corner of Atlantic Avenue and Artesia Boulevard).
 - Provide funding for economic development activities in North Long Beach.
 - Support projects that provide for expanded small business development and additional employment opportunities.
 - Address parking concerns in commercial areas, specifically Bixby Knolls and the Village Center.

- (4) **Market the North Long Beach Community and provide community outreach.**
- Implement a marketing program to promote the qualities of North Long Beach (i.e., North Long Beach newsletter, street banners, utility box art, anti-litter program and graffiti removal program).
 - Inform the public as to the vital role of redevelopment in removing blight, reversing deterioration, building partnerships between local businesses and the community, implementing the community's vision, and strengthening neighborhoods.
 - Implement the Agency's Communications and Public Outreach Plan.
- (5) **Provide staff support to various committees and organizations.**
- Continue to provide staff support to the North Long Beach Subcommittee.
 - Continue to provide staff support to the North Long Beach Project Area Committee.
- (6) **Support the development of affordable housing in Long Beach.**
- Transfer 20% of project area tax increment to the Housing Development Fund.
 - Acquire priority sites in North Long Beach for new market rate housing development and home ownership opportunities.

**THE LONG BEACH HOUSING DEVELOPMENT COMPANY
(A Component Financial Reporting Unit of the
City of Long Beach, California)**

Annual Financial Report

Fiscal Year Ended September 30, 2006

CITY OF LONG BEACH, CALIFORNIA

THE LONG BEACH HOUSING DEVELOPMENT COMPANY
(A Component Financial Reporting Unit of the City of Long Beach, California)

For the Fiscal Year Ended September 30, 2006

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THE LONG BEACH HOUSING DEVELOPMENT COMPANY
(A Component Financial Reporting Unit of the City of Long Beach, California)
September 30, 2006

Board of Directors

Patrick Brown, Vice Chair

Kevin Cwayna, M.D.

Ivy Goolsby

Jonathan D. Gotz

Richard Green, Chair

Randal Hernandez

Michael W. McCarthy

Kristie Kinney Pabst

Patrice Wong

Management

Patrick H. West, President

Ellie Tolentino, Acting Vice President

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KPMG LLP
Suite 2000
355 South Grand Avenue
Los Angeles, CA 90071-1568

Independent Auditors' Report

The Board of Directors of the Housing Development Company
of the City of Long Beach, California
The Honorable Mayor and City Council
of the City of Long Beach, California
The Citizens of the City of Long Beach, California:

We have audited the accompanying financial statements of the governmental activities and major fund of the Long Beach Housing Development Company (Company), a component financial reporting unit of the City of Long Beach, California, as of and for the year ended September 30, 2006, which collectively comprise the Company's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Company's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year's partial comparative information included has been derived from the Company's 2005 financial statements and, in our report dated February 3, 2006, we expressed unqualified opinions on the respective financial statements of the governmental activities and major fund.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed more fully in note 1, the accompanying financial statements of the Company are intended to present the financial position and the changes in the financial position attributable to the Company. They do not purport to, and do not, present fairly the financial position of the City of Long Beach, California, as of September 30, 2006, and the changes in its financial position for the year then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of the Long Beach Housing Development Company as of September 30, 2006, and the respective changes in financial position and the respective budgetary comparison for the Company's governmental fund for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 8, 2007 on our consideration of the Company's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis on pages 5 through 11 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

Los Angeles, California
June 8, 2007

THE LONG BEACH HOUSING DEVELOPMENT COMPANY
(A Component Financial Reporting Unit of the City of Long Beach, California)
Management's Discussion and Analysis
September 30, 2006

The information presented in the "Management's Discussion and Analysis" (MD&A) is intended to be a narrative overview of The Long Beach Housing Development Company's (Company) financial activities for the fiscal year ended September 30, 2006. We encourage readers to consider this information in conjunction with the basic financial statements, which can be found, on pages 12 through 38 of this report.

Financial Highlights

- The Company's assets exceeded its liabilities at September 30, 2006 by \$28,300,000. Of this amount, \$27,577,000 was recorded as unrestricted for financial reporting purposes, however, is committed for the ongoing operations of the Company in fiscal year 2007.
- The net assets of the Company increased by \$1,982,000 in fiscal year 2006. This is the result of total revenues and transfers from the City of \$4,610,000 exceeding program expenses, transfers to the Redevelopment Agency, and interest expense of \$2,628,000. Overall, the equity in pooled cash decreased with an offsetting increase to long- term receivables. The \$2,378,000 portion received from the City of Long Beach's Housing Development Fund, which accounts for the State mandated 20% tax increment housing set aside from the Redevelopment Agency of the City of Long Beach for the development of low- and moderate-income housing, is utilized for housing redevelopment projects.
- As of the close of fiscal year 2006, the Company reported a fund balance of \$9,103,000, a decrease of \$4,824,000 from the prior year. The Company's unreserved fund balance of \$8,077,000 has been appropriated for the 2007 fiscal year budget.

Overview of the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to the Company's basic financial statements. The Company's basic financial statements include three components: 1) entity-wide financial statements; 2) fund financial statements; and 3) notes to the basic financial statements.

Entity-Wide Financial Statements

The *entity-wide* financial statements are designed to provide readers with a broad overview of the Company's finances, in a manner similar to a private sector business.

The *statement of net assets* presents information on all of the Company's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the Company is improving or deteriorating.

The *statement of activities* presents information showing how the Company's net assets changed during the current fiscal year. All changes in net assets are reported as soon as the transaction causing the change occurs, regardless of the timing of the related cash flows. Thus revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

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The Company reports all of its financial transactions as a governmental activity. Specific activities include housing, community and economic development, general projects, and debt service.

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Company, like other units of state and local government, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Company accounts for its activities in a special revenue fund, under a broader classification called a governmental fund. Such special revenue fund is used by the Company to account for the proceeds of specific revenue sources restricted for specified purposes.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the entity-wide financial statements. However, unlike the entity-wide financial statements, governmental funds financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the entity-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the entity-wide financial statements. In so doing, readers may better understand the long-term impact of the Company's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide reconciliations to facilitate comparisons between governmental funds and governmental activities. These reconciliations can be found on pages 15 and 17, respectively, of this annual report.

The Company maintains a special revenue fund as a governmental fund. The Company's governmental fund financial statements can be found on pages 14 through 17 of this report.

The Company adopts an annual appropriated budget. A budgetary comparison statement has been provided for the Company's governmental fund on page 18 of this report to demonstrate the Company's compliance with its budget policy.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the entity-wide and fund financial statements. The notes to the basic financial statements can be found on pages 20 through 38 of this report.

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Entity-Wide Financial Analysis

The Company's basic financial statements are presented in accordance with GASB Statement No. 34 and its related pronouncements. The focus of the analysis is on the current fiscal year's net assets and changes in net assets. Comparative analysis of data is included in the current fiscal year's financial statements.

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The assets of the Company exceeded its liabilities at September 30, 2006 by \$28,300,000. Of this amount, \$23,563,000 arises from other non-current loan receivables, as described in Note 8 of the notes to the basic financial statements. The increase in current and other assets of \$2,727,000 is due mainly to an increase in loans receivable.

The following table summarizes the Company's net assets (in thousands):

Net Assets September 30, 2006 (In thousands)				
	2006	2005	Change	
			Amount	Percent
<u>Assets</u>				
Current and other assets	\$ 34,821	\$ 32,094	\$ 2,727	8.50 %
Capital assets	1,708	1,764	(56)	(3.17)
Total assets	<u>36,529</u>	<u>33,858</u>	<u>2,671</u>	7.89
<u>Liabilities</u>				
Current liabilities	1,125	727	398	54.75
Noncurrent liabilities	7,104	6,813	291	4.27
Total liabilities	<u>8,229</u>	<u>7,540</u>	<u>689</u>	9.14
Net assets:				
Invested in capital assets, net of related debt	692	748	(56)	(7.49)
Restricted	31	43	(12)	(27.91)
Unrestricted	27,577	25,527	2,050	8.03
Total net assets	<u>\$ 28,300</u>	<u>\$ 26,318</u>	<u>\$ 1,982</u>	7.53 %

Governmental Activities

During the 2006 fiscal year, governmental activities increased the net assets by \$1,982,000 or 7.53% of the prior year's net assets. The key elements of the governmental activities contributing to the increase in net assets were an increase of \$6,897,000 in long-term receivables on loans, an increase in advances from the City, and a decrease in pooled cash. Pooled cash decreased by \$4,202,000 due to fewer tax increment housing set-aside revenues and fewer set-aside funded development projects.

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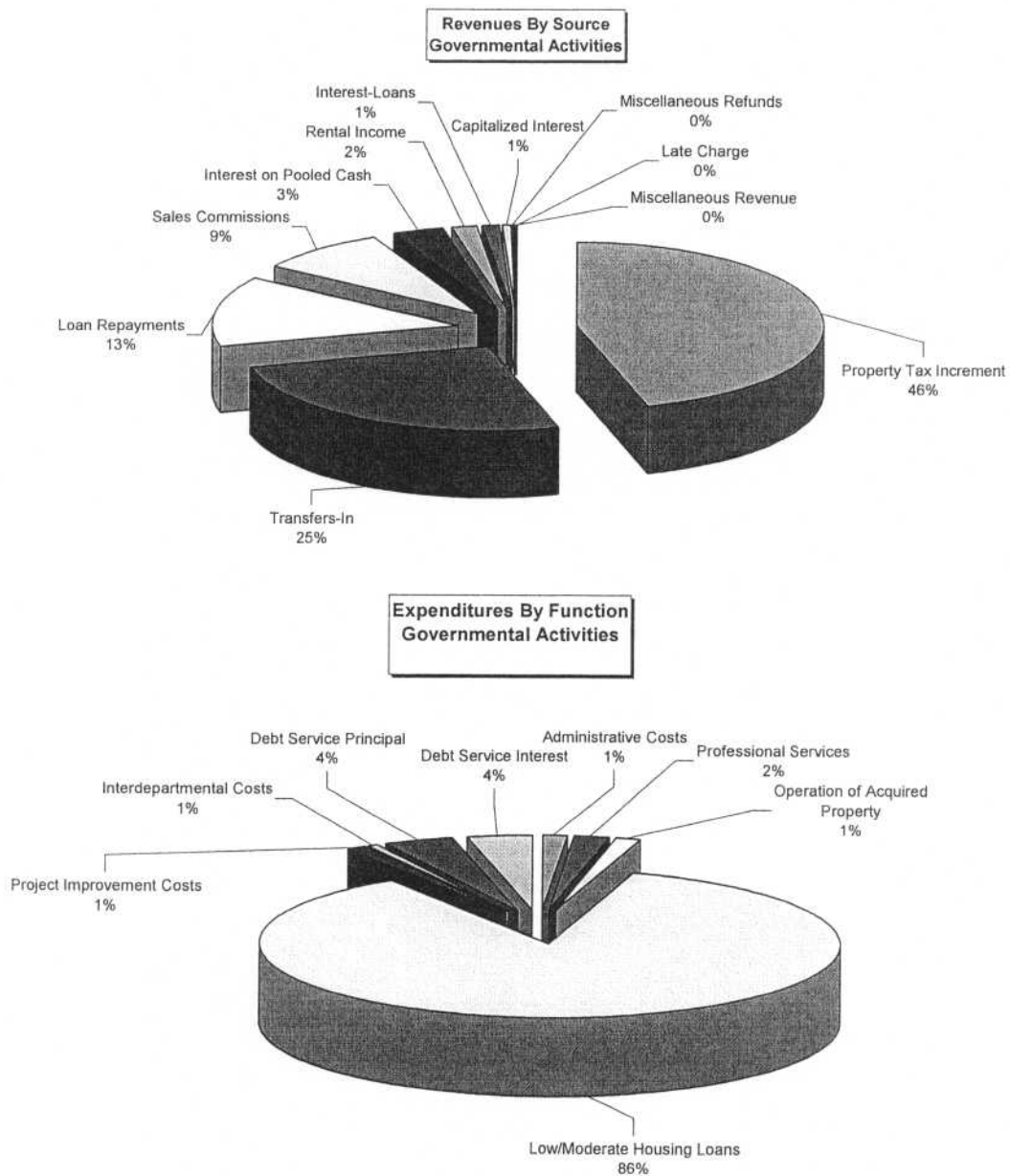
The transfers to the Redevelopment Agency showed an increase of \$906,000 compared to the prior year. In 2006, the Company financed multiple rehabilitation and acquisition projects within West Gateway and Atlantic Avenue Phase III & IV with housing set-aside allocations from the Redevelopment Agency.

Financial Analysis of the Company's Activities

Changes in Net Assets September 30, 2006 (In Thousands)				
	Governmental Activities		Change	
	2006	2005	Amount	Percent
<u>Revenues</u>				
Program Revenues				
Charges for services	\$ 687	\$ 1,396	\$ (709)	(50.79) %
General Revenues				
Property tax increment - 20% set-aside	2,378	9,403	(7,025)	(74.71)
Unrestricted investment earnings	222	151	71	47.02
Land reconveyance	-	3,419	(3,419)	(100.00)
Total Revenues	<u>3,287</u>	<u>14,369</u>	<u>(11,082)</u>	<u>(77.12)</u>
<u>Expenses</u>				
Program Expenses				
Community and cultural/housing	232	1,491	(1,259)	(84.44)
Interest on long-term debt	66	90	(24)	(26.67)
Total Expenses	<u>298</u>	<u>1,581</u>	<u>(1,283)</u>	<u>(81.15)</u>
Increase in Net Assets before Transfers	2,989	12,788	(9,799)	(76.63)
Transfers from the City	1,323	-	1,323	(100.00)
Transfers to Redevelopment Agency	(2,330)	(1,424)	(906)	63.62
Change in net assets	1,982	11,364	(9,382)	(82.56)
Net assets, October 1	26,318	14,954	11,364	75.99
Net assets, September 30	<u>\$ 28,300</u>	<u>\$ 26,318</u>	<u>\$ 1,982</u>	<u>7.53 %</u>

Property tax increment revenues decrease of \$7,025,000 is a result of fewer housing development start-up projects. There were also no land or property reconveyances in 2006, which resulted in a \$3,419,000 decrease in land reconveyance revenues.

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As noted earlier, the Company uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Governmental funds - the focus of the Company's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Company's financing requirements. In particular, the unreserved/designated fund balance serves as a useful measure of the Company's net resources available for spending at the end of the fiscal year.

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As of September 30, 2006, the Company's governmental funds reported an ending fund balance of \$9,103,000, a decrease of \$4,824,000 compared to the prior year. The ending fund balance includes \$1,026,000 reserved for replacement and operations and properties held for resale. The remaining fund balance of \$8,077,000 is designated for housing development projects. Transfers from the City of \$1,323,000 is the result of the Company receiving Housing and Urban Development grant funds for the predevelopment, acquisition, and rehabilitation of seventeen (17) efficiency style single living units.

Governmental Fund Budgetary Highlights

A comparison between the initial budget and the final amended budget for the Company's governmental fund expenditures shows net appropriations decrease of \$940,000 or 3.30% in appropriations. The decrease in appropriations is attributable to a reduced number of rehabilitation housing loans, project improvements and related construction costs. Fewer land purchases for major housing projects were made in fiscal year 2006.

Actual expenditures in the Company's budgetary basis of accounting were \$8,318,000, representing 30.15% of the \$27,589,000 final budget. Unspent budget amounts of \$19,271,000 related primarily to housing loans, caused by changes in the timing of expenditures and the development of a strategy to implement the City's Housing Action Plan (HAP) by the Company. Prior to the actual implementation of the HAP, additional studies had to be undertaken, contributing to the delay in incurring the expenditures.

Capital Assets

The Company's investments in capital assets, net of accumulated depreciation for its governmental activities as of September 30, 2006 total \$1,708,000. The Company's capital assets are as follows (in thousands):

Capital Assets, Net of Depreciation September 30, 2006	
<hr/>	
Non depreciated capital assets	
Land	\$ 815
Capital assets subject to depreciation, net	
Building	155
Improvements other than buildings	738
Total capital assets subject to depreciation	<hr/> 893
Total capital assets, net	<hr/> <hr/> \$ 1,708

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Additional information on the Company's capital assets can be found in Note 3 of the notes to the basic financial statements (page 27 of this report).

Debt Administration

At September 30, 2006, the Company's long-term liabilities totaled \$7,104,000 as follows (in thousands):

Long-Term Debt	
Advances from the City of Long Beach	\$ 4,449
Notes payable	2,655
Total long-term debt	<u>\$ 7,104</u>

The notes payable include State loans of \$1,016,000 for the construction and rehabilitation of Company property and \$1,639,000 for a housing development project. The advance from the City for the acquisition of parcels of land was subsequently conveyed to a developer for rehabilitation of the property, a childcare and community center, and open space.

Additional information on the Company's long-term debt can be found in Note 4 and 5 of the notes to the basic financial statements (pages 28 - 29 of this report).

Economic Factors and Next Year's Budget

The receipt of tax increment housing set-aside revenues has been increasing over the previous years due to the Redevelopment Agency's increased property tax increment revenues which were generated by rising home values, new residential and retail developments and substantial increases in possessory interest from Port area leases within the Redevelopment Agency project areas. This trend is expected to continue and will provide additional resources for the Company's fiscal year 2007 budget.

On June 1, 2004, the Long Beach City Council adopted a five-year Housing Action Plan (HAP) covering fiscal years 2005-2009 and authorized The Long Beach Housing Development Company (LBHDC) to administer the HAP. The HAP will serve as the framework for the allocation of the City's limited resources for affordable housing.

Requests for Information

This financial report is designed to provide a general overview of the Company's finances for all those interested. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

City of Long Beach
Department of Financial Management
333 W. Ocean Boulevard, 6th Floor
Long Beach, CA 90802

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THE LONG BEACH HOUSING DEVELOPMENT COMPANY
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Statement of Net Assets
September 30, 2006
(With Partial Financial Information for 2005)
(In Thousands)

	Governmental Activities	
	2006	2005
ASSETS		
Current assets:		
Pooled cash and cash equivalents	\$ 8,776	\$ 12,978
Interest receivable	1	-
Properties held for resale	995	995
Total current assets	<u>9,772</u>	<u>13,973</u>
Noncurrent Assets:		
Advances to the Redevelopment Agency	1,486	1,455
Other noncurrent receivables, net	23,563	16,666
Capital assets:		
Land and other assets not being depreciated	815	815
Building and improvements, net of accumulated depreciation	<u>893</u>	<u>949</u>
Total noncurrent assets	<u>26,757</u>	<u>19,885</u>
Total assets	<u>36,529</u>	<u>33,858</u>
LIABILITIES		
Current liabilities:		
Vouchers/accounts payable	650	29
Accrued wages payable	3	3
Collections held in trust	15	13
Due to the City of Long Beach	1	1
Accrued interest payable	<u>456</u>	<u>681</u>
Total current liabilities	<u>1,125</u>	<u>727</u>
Noncurrent liabilities:		
Advances from the City of Long Beach	4,449	3,819
Other long-term obligations - notes payable	<u>2,655</u>	<u>2,994</u>
Total noncurrent liabilities	<u>7,104</u>	<u>6,813</u>
Total liabilities	<u>8,229</u>	<u>7,540</u>
NET ASSETS		
Invested in capital assets		
Net of related debt	692	748
Restricted	31	43
Unrestricted	<u>27,577</u>	<u>25,527</u>
Total Net Assets	<u>\$ 28,300</u>	<u>\$ 26,318</u>

The notes to the basic financial statements are an integral part of this statement.

THE LONG BEACH HOUSING DEVELOPMENT COMPANY
(A Component Financial Reporting Unit of the City of Long Beach, California)

Statement of Activities
Year Ended September 30, 2006
(With Partial Financial Information for 2005)
(In Thousands)

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenues and Change in Net Assets	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Special Revenue Fund- Governmental Activities	
					2006	2005
Primary Government:						
Community and cultural/housing	\$ 232	\$ 687	\$ -	\$ -	\$ 455	\$ (95)
Interest on long-term debt	66	-	-	-	(66)	(90)
Total government activities	<u>\$ 298</u>	<u>\$ 687</u>	<u>\$ -</u>	<u>\$ -</u>	<u>389</u>	<u>(185)</u>
General Revenues:						
Property tax increment - 20% set-aside					2,378	9,403
Unrestricted investment earnings					222	151
Land reconveyance					-	3,419
Transfers from the City, net					1,323	-
Transfers to the Redevelopment Agency					(2,330)	(1,424)
Total general revenues and transfers					<u>1,593</u>	<u>11,549</u>
Change in net assets					<u>1,982</u>	<u>11,364</u>
Net assets - October 1					<u>26,318</u>	<u>14,954</u>
Net assets - September 30					<u>\$ 28,300</u>	<u>\$ 26,318</u>

The notes to the basic financial statements are an integral part of this statement.

THE LONG BEACH HOUSING DEVELOPMENT COMPANY
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Balance Sheet - Governmental Fund
September 30, 2006
(With Partial Financial Information for 2005)
(In Thousands)

	<u>2006</u>	<u>2005</u>
Assets		
Pooled cash and investments	\$ 8,776	\$ 12,978
Notes/ interest receivable	1	-
Receivables-loan, long-term, net	23,563	16,666
Properties held for resale	995	995
Total assets	<u>\$ 33,335</u>	<u>\$ 30,639</u>
Liabilities and Fund Balance		
Liabilities		
Accrued wages payable	\$ 3	3
Vouchers/ accounts payable	650	29
Deferred revenues	23,563	16,666
Collections held in trust	15	13
Due to other funds	1	1
Total liabilities	<u>24,232</u>	<u>16,712</u>
Fund balance		
Reserved:		
Replacement and operations	31	43
Properties held for resale	995	995
Unreserved/designated - future projects	<u>8,077</u>	<u>12,889</u>
Total fund balance	<u>9,103</u>	<u>13,927</u>
Total liabilities and fund balance	<u>\$ 33,335</u>	<u>\$ 30,639</u>

The notes to the basic financial statements are an integral part of this statement.

THE LONG BEACH HOUSING DEVELOPMENT COMPANY
(A Component Financial Reporting Unit of the City of Long Beach, California)

Reconciliation of the Balance Sheet of Governmental Fund
to the Statement of Net Assets
September 30, 2006
(In Thousands)

Amounts reported for governmental activities in the statement of net assets are different because:

Total governmental fund balance	\$ 9,103
Capital assets used in the governmental activities are not financial resources and, therefore, are not reported in the fund financial statements.	1,708
Advances due from/to the primary government is considered to be external activity that is reported only in the government-wide financial statements.	(2,963)
The focus of governmental fund is short-term financing; some assets will not be available to pay for current period expenditures. Those assets are offset by deferred revenue in the fund financial statements.	23,563
Governmental long-term liabilities are not due and payable in the current period and therefore, are not reported in the fund financial statements.	<u>(3,111)</u>
Net assets of governmental activities	<u><u>\$ 28,300</u></u>

The notes to the basic financial statements are an integral part of this statement.

**THE LONG BEACH HOUSING DEVELOPMENT COMPANY,
(A Component Financial Reporting Unit of the City of Long Beach, California)**

Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Fund
Year Ended September 30, 2006
(With Partial Financial Information for 2005)
(In Thousands)

	<u>2006</u>	<u>2005</u>
Revenues		
Property tax increment - 20% set-aside	\$ 2,378	\$ 9,403
Rental income	80	108
Interest income	234	201
Loan repayments	704	767
Gain on sale of land	-	492
Other	475	622
Total revenues	<u>3,871</u>	<u>11,593</u>
Expenditures		
Administrative costs	119	109
Acquisition costs	7	-
Disposition costs	-	49
Professional services	155	103
Operation of acquired property	109	73
Low and moderate income housing loans/ grants	7,163	2,220
Project improvement/construction costs	77	97
Interdepartmental charges	49	55
Loss on sale of land	-	3,419
Property and other taxes	9	19
Debt service payments:		
Principal	339	970
Interest	291	-
Total expenditures	<u>8,318</u>	<u>7,114</u>
Excess of revenues over (under) expenditures	<u>(4,447)</u>	<u>4,479</u>
Other financing sources (uses)		
Proceeds from Advance	630	-
Transfers to the Redevelopment Agency	(2,330)	(1,424)
Transfers from the City	1,335	-
Transfers to the City	(12)	-
Reconveyance of land	-	3,419
Total other financing sources (uses), net	<u>(377)</u>	<u>1,995</u>
Excess of revenues and other sources over (under) expenditures and other (uses)	(4,824)	6,474
Fund balance, October 1	13,927	7,453
FUND BALANCE, SEPTEMBER 30	<u><u>\$ 9,103</u></u>	<u><u>\$ 13,927</u></u>

The notes to the basic financial statements are an integral part of this statement.

**THE LONG BEACH HOUSING DEVELOPMENT COMPANY,
(A Component Financial Reporting Unit of the City of Long Beach, California)**

Reconciliation of the Statement of Revenues,
Expenditures and Changes in the Fund Balance of Governmental Fund
to the Statement of Activities
Year Ended September 30, 2006
(In Thousands)

Amounts reported for governmental activities in the
statement of activities are different because:

Excess of revenue and other sources over (under) expenditures and other uses - governmental fund.	\$ (4,824)
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Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful life and reported as depreciation expense. This is the amount by which capital outlay exceeds depreciation in the current period.	(56)
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Effective October 1, 2004, the Company changed its method of accounting for advances from/to the primary government based on additional guidance issued by the Governmental Accounting Standards Board. The governmental fund now records these advances only in its government-wide financial statements.	32
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Governmental funds report expenditures pertaining to the establishment of certain long-term loans made. Payments on these long-term receivables are recorded as revenue in the governmental funds. These deferred credits are not reported on the statement of net assets and, therefore, the corresponding net expense is not reported on the statement of activities.	6,896
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	<u>(66)</u>
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Change in net assets of governmental activities	<u><u>\$ 1,982</u></u>
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The notes to the basic financial statements are an integral part of this statement.

THE LONG BEACH HOUSING DEVELOPMENT COMPANY
(A Component Financial Reporting Unit of the City of Long Beach, California)

Statement of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis)
Year Ended September 30, 2006
(In Thousands)

	Budgeted Amounts		Actual On	Variance
	Original	Final	Budgetary	with Final
			Basis	Budget- Positive (Negative)
Revenues:				
Property tax increment - 20% set-aside	\$ 27,181	\$ 19,946	\$ 2,378	\$ (17,568)
Rental income	449	354	80	(274)
Interest income	(77)	(77)	234	311
Loan repayments-principal	(972)	(972)	704	1,676
Proceeds from the sale of land	321	321	-	(321)
Other	54	54	475	421
Total revenues	<u>26,956</u>	<u>19,626</u>	<u>3,871</u>	<u>(15,755)</u>
Expenditures:				
Administration costs	(42)	6	119	(113)
Professional services	(487)	-	155	(155)
Planning, survey & design	(43)	-	-	-
Acquisition costs	7	17	7	10
Relocation costs	(65)	-	-	-
Disposition costs	(79)	-	-	-
Operation of acquired property	(84)	-	109	(109)
Low and moderate income housing loans/grants	27,541	26,415	7,163	19,252
Project improvement/construction costs	1,817	932	77	855
Interdepartmental charges	49	49	49	0
Capital outlay	(34)	-	-	-
Debt service payments:				
Principal	(36)	-	339	(339)
Interest	-	-	291	(291)
Property and other taxes	181	170	9	161
Land purchases	(196)	-	-	-
Total expenditures	<u>28,529</u>	<u>27,589</u>	<u>8,318</u>	<u>19,271</u>
Excess of expenditures over revenues	<u>(1,573)</u>	<u>(7,963)</u>	<u>(4,447)</u>	<u>3,516</u>
Other financing sources and (uses):				
Proceeds from issuance of long-term debt	(3,856)	-	-	-
Transfers to the Redevelopment Agency	(3,385)	(3,385)	(2,330)	1,055
Transfer out to other funds	(1,422)	(1,404)	(12)	1,392
Transfers in from other funds	4,000	6,710	1,335	(5,375)
Transfers from the Redevelopment Agency	(8)	(8)	-	8
Total other financing sources (uses)	<u>(4,671)</u>	<u>1,913</u>	<u>(1,007)</u>	<u>(2,920)</u>
Excess of revenues and other sources over (under) expenditures and other uses	<u>(6,244)</u>	<u>(6,050)</u>	<u>(5,454)</u>	<u>596</u>
Fund balance- October 1, budgetary basis	12,933	12,933	12,933	-
Encumbrances, beginning of year	-	-	-	-
FUND BALANCE- SEPTEMBER 30, BUDGETARY BASIS	<u>\$ 6,689</u>	<u>\$ 6,883</u>	<u>\$ 7,479</u>	<u>\$ 596</u>

The notes to the basic financial statements are an integral part of this statement.

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THE LONG BEACH HOUSING DEVELOPMENT COMPANY
(A Component Financial Reporting Unit of the City of Long Beach, California)
Notes to Basic Financial Statements
September 30, 2006

Note 1 - Summary of Significant Accounting Policies

Organization

The Long Beach Housing Development Company (Company) was established by the City of Long Beach, California (City), on July 25, 1989 for the purpose of planning, performing and assisting in meeting the housing needs of low- and moderate-income residents. The Company is a California non-profit public benefit corporation governed by a board comprised of fourteen members appointed by the Mayor and confirmed by the City Council. The City Council approves the Company's bylaws and changes thereto, and the City provides all staff and administrative support, including most of the Company's annual funding.

Reporting Entity

The Company's financial activities are accounted for in the City's Special Revenue Housing Development Fund (Fund) along with other City housing-related activities. Inasmuch as the Company meets the criteria established by the Governmental Accounting Standards Board for inclusion as a component financial reporting unit of the City of Long Beach, the accompanying basic financial statements are included in the City's Comprehensive Annual Financial Report (CAFR). The City's CAFR may be obtained by contacting the City's Department of Financial Management at 333 W. Ocean Blvd., Long Beach, CA 90802.

The Company's expenditures are paid through the City's centralized accounting system and are therefore subject to all City internal control procedures.

Basis of Accounting and Measurement Focus and Financial Statement Presentation

Entity-wide basic financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The Company's activities have been determined to best operate as a special revenue fund type. Consistent with U.S. generally accepted accounting principles for governmental fund types, the fund financial statements are reported using the modified accrual basis of accounting. Under this method of accounting, revenues are recognized in the accounting period in which they become measurable and available. The Company considers revenues to be available if they are collected within one year at the end of the current fiscal period, with the exception of property taxes which are considered available if collected within 60 days of the end of the current fiscal period. Expenditures are recorded at the time liabilities are incurred, if measurable, except for unmatured principal and interest on long-term debt, which is recognized when due.

Generally, only current assets and current liabilities are included on the governmental fund balance sheets. However, noncurrent portions of long-term receivables related to governmental funds are also reported on the balance sheet and are offset by deferred revenue. The statement of revenues, expenditures and changes in fund balances for governmental funds generally present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in current financial resources.

THE LONG BEACH HOUSING DEVELOPMENT COMPANY
(A Component Financial Reporting Unit of the City of Long Beach, California)
Notes to Basic Financial Statements
September 30, 2006

The Company's net assets include capital assets net of long-term obligations, restricted and unrestricted assets. Restricted assets for the Company pertain to monies which have been required under the regulatory agreement with the State to be segregated for capital improvements and for unanticipated or unusually high maintenance expenditures.

Pooled Cash and Investments

In order to enhance investment return, the Company pools its available general cash with that of the City. The City's cash management pool is used essentially as a demand deposit account by the participating units.

Interest income and realized gains and losses arising from pooled cash and investments are apportioned to each participating unit of the pool based on the relationship of its respective daily cash balance to aggregate pooled cash and investments. The Company's share of pooled cash and investments is stated at fair value at September 30, 2006.

Long-Term Obligations

In the entity-wide financial statements, long-term debt and other liabilities are reported as liabilities in the Statement of Net Assets. Initial-issue bond premium and discounts are deferred and amortized over the life of the bonds on a straight-line basis. Bonds payable are reported net of the unamortized portion of applicable premium, discount or deferred amount on refunding. Amortization of bond premiums or discounts and deferred amounts on refunding are included in interest expense. As of September 30, 2006 there are no bonds outstanding.

In the Company's fund financial statements, governmental fund types recognize bond premiums, discounts and issuance costs during the period issued. The face amount of the debt is reported as another financing source. Premiums received are reported as other financing uses. Bond issuance costs are reported as debt service expenditures, whether or not withheld from the actual bond proceeds.

Properties Held for Resale

To aid in the development of low- and moderate-income housing for residents, the Company acquires selected parcels of land and makes such sites available for sale to qualified developers. The purchase price of the land acquired is capitalized as "Properties Held for Resale" and the fund balance is reserved for the investment of the land in the fund financial statements.

The purchased land is recorded at the lower of cost or market value (when a definite market value can be determined) excluding demolition and relocation costs, which are considered by the Company to be expenditures in the year incurred.

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Capital Assets

The Company has adopted the City's policy regarding the recording of capital assets. Such policy defines capital assets as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Capital assets are recorded at historical cost.

Capital assets are depreciated on a straight-line basis, over the estimated useful lives of the assets as follows:

Land Improvements	15-35 years
Buildings	20-50 years

Budgetary Principles

The Company is required to adopt an annual budget as part of the City's budget process on or before September 30 for the ensuing fiscal year. The Company identifies prospective projects, develops a work program and budget, and submits them to the City for approval. The Company implements programs within the approved budget limits.

Budget information is presented in the accompanying basic financial statements on the budgetary basis of accounting for both the original and final amended budget.

Accounting for Encumbrances

In accordance with accounting practices adopted by the City, the Company utilizes an encumbrance system of accounting wherein encumbrances outstanding at fiscal year end are not reported as expenditures, but are reported as a reservation of fund balance available for subsequent year expenditures based on the encumbered appropriation authority carried over to the next fiscal year. Under the budgetary basis of accounting, the Company records an encumbrance as a charge against appropriations in the accounting period in which a purchase order is issued, rather than when goods or services are received.

Implementation of New Accounting Standards

For the fiscal year ended September 30, 2006, the Agency adopted new accounting standards in order to conform to the following Government Accounting Standards Board (GASB) Statements:

GASB Statement No. 42 Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries establishes accounting and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This Statement also clarifies and establishes accounting requirements for insurance recoveries.

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GASB Statement No. 46 Net Assets Restricted by Enabling Legislation addresses selected issues and amends GASB Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments. The Statement enhances the usefulness and comparability of new asset information and clarifies the meaning of legal enforceability. The Statement also specified accounting and financial reporting requirements for restricted net assets.

GASB Statement No. 47 Accounting for Termination Benefits provides accounting guidance for state and local governmental employers regarding benefits (such as early-retirement incentives and severance benefits) provided to employees that are terminated. The Statement requires recognition of the cost of involuntary termination benefits in the period in which a government becomes obligated to provide benefits to terminated employees.

Estimates

The preparation of the City's basic financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 2 - Pooled Cash and Investments

The Company pools its cash and investments with other City funds maintained by the City Treasurer. The Company's individual cash deposits and investments within this pool are not specifically segregated. Interest income earned on pooled cash and investments is allocated monthly to the various pool participants based on their average daily cash balances.

As a component financial reporting unit of the City, the Company is authorized to participate in investments in obligations issued or guaranteed by the Federal Government and its agencies and instrumentalities, high quality commercial paper and medium term corporate notes rated by Standard and Poor's Corporation or Moody's Commercial Paper Record, bankers' acceptances, repurchase agreements, reverse repurchase agreements, bank certificates of deposit, the State Treasurer's Local Agency Investment Fund and shares of beneficial interest (mutual funds) issued by diversified investment management companies. The City's bank deposits are either covered by appropriate federal insurance, or are collateralized in accordance with the California Government Code. Pooled cash and investment detail is included in the City's Comprehensive Annual Financial Report.

Cash and Investments

The Company's cash and investments are maintained by the City Treasurer and are pooled with other City funds and investments to enhance the investment returns for these funds. Interest income earned on pooled cash and investments is allocated monthly to the various participating entities based on their average daily cash balances. The City's bank

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deposits are either covered by appropriate Federal Deposit Insurance Corporation, or are collateralized in accordance with the California Government Code. Pooled cash and investment for each fund type is included in the City's Comprehensive Annual Financial Report Statement of Net Assets under the caption entitled "Pooled Cash and Cash Equivalents."

Investments Authorized by the California Government Code and the City's Investment Policy

The table below identifies the investment types that are authorized for the City by the City's investment policy. The table also identifies certain provisions of the City's investment policy that address interest rate risk, credit risk, and concentration of credit risk. This table does not address debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the City, rather than the general provision of the California Government Code or the City's investment policy.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Bonds issued by the City	5 years *	30%	None
U.S. Treasury Notes, Bonds, or Bills	5 years *	None	None
Registered State Warrants or Treasury Notes or Bonds of the State of California	5 years *	30%	None
Local Agency Bonds	5 years *	30%	None
Federal Agency Securities	5 years *	None	None
Banker's Acceptances	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years *	30%	10%
Time Certificates of Deposit	5 years *	100%	10%
Repurchase Agreements	90 days	100%	None
Reverse Repurchase Agreements	92 days	20%	None
Securities Lending Program	92 days	20%	None
Medium-Term Notes	5 years *	30%	10%
Money Market Funds	N/A	20%	10%
Local Agency Investment Fund (LAIF)	N/A	None	\$40 million per account
Asset-backed Securities	5 years	20%	None
Mortgage-backed Securities	5 years	20%	None

* Maximum maturity of five (5) years unless a longer maturity is approved by the City Council, either specifically or as part of an investment program, at least three (3) months prior to purchase.

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Investments Authorized by Debt Agreements

Investment of debt proceeds held by bond trustee are governed by provisions of the debt agreements.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments, and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming closer to maturity evenly over time as necessary to provide cash flow and liquidity needed for operations.

The following schedule indicates the interest rate risk of the City's investments as of September 30, 2006 (in thousands):

Investment Type	Fair Value	Weighted Average Maturity (in years)
Inter-Department Loan (Health Savrs)	\$ 3,297	12.600
U.S. Treasury Notes	214,467	1.542
Federal Agency Securities	1,042,876	1.572
Medium-Term Notes	33,464	1.609
Short-term Commerical Paper	132,731	0.013
Local Agency Investment Fund (LAIF)	2,921	0.003
Subtotal City Pool	<u>1,429,756</u>	
Cash on Hand	26,811	
Outstanding Checks	<u>(18,043)</u>	
Total City Pool	<u><u>\$ 1,438,524</u></u>	

The Housing Development Company's pooled cash and cash equivalents amount of \$8,776,000 is approximately 1% of the City's pooled cash and cash equivalents of \$1,438,524,000.

Investments with Fair Values Highly Sensitive to Investment Risk

The City had no investments with values that were highly sensitive to investment risk as of September 30, 2006.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the California Government Code, the City's investment policy, and the actual rating as of year end for each investment type (in thousands):

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		Rating as of Year End						
Investment Type		Minimum Legal Rating	Not Required To Be Rated	A-1+	A-1	AAA	AA-	Unrated
Inter-Department Loan (Health Savrs)	\$ 3,297	N/A	\$ 3,297	\$ -	\$ -	\$ -	\$ -	\$ -
U.S. Treasury Notes	214,467	N/A	214,467	-	-	-	-	-
Federal Agency Securities	1,042,876	N/A	-	-	-	1,042,876	-	-
Medium-Term Notes	33,464	A	-	-	-	28,445	5,019	-
Short-term Commercial Paper	132,731	N/A	-	75,773	56,958	-	-	-
Local Agency Investment Fund (LAIF)	2,921	N/A	2,921	-	-	-	-	-
Subtotal City Pool	1,429,756		220,685	75,773	56,958	1,071,321	5,019	-
Cash on Hand	26,811		-	-	-	-	-	26,811
Outstanding Checks	(18,043)		-	-	-	-	-	(18,043)
Total City Pool	<u>\$ 1,438,524</u>		<u>\$ 220,685</u>	<u>\$ 75,773</u>	<u>\$ 56,958</u>	<u>\$ 1,071,321</u>	<u>\$ 5,019</u>	<u>\$ 8,768</u>

Concentration of Credit Risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer that represent 5% or more on the City's total pooled investments are as follows (in thousands):

Issuer	Investment Type	Reported Amount
FFCB Total	Federal Agency Securities	\$ 181,052
FHLB Total	Federal Agency Securities	241,246
FHLMC Total	Federal Agency Securities	266,937
FNMA Total	Federal Agency Securities	353,641
U.S. Treasuries	U.S. Treasury Notes & Bonds	214,467
Commercial Paper	Unsecured Corporate Debt	132,731

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits. The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

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All securities owned by the City are deposited in trust for safekeeping with a custodial bank different from the City's primary bank except for one City issued bond and investment in the State's Local Agency Investment Fund.

As of September 30, 2006, the City reports deposits of \$26,811,000 less \$18,043,000 for checks outstanding.

Investment in State Investment Pool

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the City's investment in this pool is reported in the accompanying financial statements at amounts based upon the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are mortgage-backed securities, loans to certain State funds, securities with interest rates that vary according to changes in rates greater than a one-for-one basis, and structured basis.

GASB 31

GASB 31 requires that certain investments and external investment pools be reported at fair value. At September 30, 2006 and 2005, the effect of recording investments at fair value did not have a material impact on its financial position.

Securities Lending

The City did not engage in any securities lending programs for the fiscal year ended September 30, 2006. However, from time to time, the City engages in limited securities-lending activities. These activities are governed by formal agreements with the City's contract bank. These agreements limit the nature and amount of the transactions, and provide for full collateralization of each transaction.

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Note 3 - Capital Assets

Capital asset activity for the year ended September 30, 2006 was as follows (in thousands):

<u>Governmental Activities:</u>	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 815	\$ -	\$ -	\$ 815
Total capital assets not being depreciated:	<u>815</u>	<u>-</u>	<u>-</u>	<u>815</u>
Capital assets, being depreciated:				
Building	236	-	-	236
Improvements other than buildings	<u>1,053</u>	<u>-</u>	<u>-</u>	<u>1,053</u>
Total capital assets being depreciated:	<u>1,289</u>	<u>-</u>	<u>-</u>	<u>1,289</u>
Less: Accumulated depreciation for:				
Building	(70)	(11)	-	(81)
Improvements other than buildings	<u>(270)</u>	<u>(45)</u>	<u>-</u>	<u>(315)</u>
Total accumulated depreciation	<u>(340)</u>	<u>(56)</u>	<u>-</u>	<u>(396)</u>
Total capital assets being depreciated, net	<u>949</u>	<u>(56)</u>	<u>-</u>	<u>893</u>
Governmental Activities Capital Assets, Net	<u>\$ 1,764</u>	<u>\$ (56)</u>	<u>\$ -</u>	<u>\$ 1,708</u>

Depreciation was charged to functions/programs of governmental activities as follows (in thousands):

Community & cultural/ housing	<u>\$ 56</u>
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Note 4 – Long-Term Obligations

In the accompanying entity-wide financial statements, long-term debt of \$7,104,000 is reported as a liability in the Statement of Net Assets. Long-term debt activity for the year ended September 30, 2006 was as follows (in thousands):

	<u>Balance October 1, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30 2006</u>	<u>Due within one year</u>
Governmental Activities:					
Advances from the City of Long Beach (Note 5)	\$ 3,819	\$ 630	\$ -	\$ 4,449	\$ -
Notes payable	<u>2,994</u>	<u>-</u>	<u>(339)</u>	<u>2,655</u>	<u>356</u>
Long-Term Liabilities	<u>\$ 6,813</u>	<u>\$ 630</u>	<u>\$ (339)</u>	<u>\$ 7,104</u>	<u>\$ 356</u>

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State Loans

In fiscal year 1992, the Company entered into a loan agreement totaling \$1,016,000 with the State of California Department of Housing and Community Development (State) for construction and rehabilitation of Company property. The project was completed in fiscal year 1993. Interest on the loan accrues from the date the funds were disbursed by the State at a simple interest rate of three percent (3%) per year, with the interest payment due within sixty days of fiscal year end if sufficient funds are available. The Company made an interest payment of \$14,108 in fiscal year 1997. The principal and any unpaid interest are due in January 2022. As of September 30, 2006, the entire amount remains payable to the State.

In fiscal year 1999 and fiscal year 2000, the Company received \$1,978,000 from the City, generated from a State HELP loan of \$2,000,000. The HELP loans have an interest rate of 3% and payments could be deferred for a period of ten years. The outstanding HELP loans (proceeds of \$1,639,000 used for a housing development project) will be repaid by the Company. As of September 30, 2006, the Company repaid \$339,000 in principal and \$291,000 in interest. The remaining available loan commitment of \$22,000 will not be utilized by the Company.

Aggregate annual debt service requirements to maturity are summarized as follows (in thousands):

Year Ending September 30	Principal	Interest	Total
2007	\$ -	\$ 80	\$ 80
2008	-	80	80
2009	969	80	1,049
2010	670	41	711
2011	-	30	30
2012 - 2016	-	152	152
2017 - 2021	-	152	152
2022	1,016	486	1,503
Total	<u>\$ 2,655</u>	<u>\$ 1,102</u>	<u>\$ 3,757</u>

Note 5 - Advances from the City of Long Beach

City loans of \$4,449,000 have been recorded in the accompanying Statement of Net Assets.

In fiscal year 2001, the Company entered into a zero interest loan agreement with the City for \$4,000,000 of HOME grant funds, to be used as gap financing for the acquisition of 26 parcels of land, each containing a four-unit apartment building, in addition to State loans. The 26 parcels were subsequently conveyed to the developer for \$7,680,000, pursuant to an amended Disposition and Development Agreement and a restated Promissory Note. The Developer has completed rehabilitation of the 24 four-plexes, and construction of a childcare center and community center. The Promissory Note requires the developer to make annual payments based on residual receipts generated from the project, with any

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remaining balance fully payable on April 1, 2034. In turn, the Company is required to make principal payments to the City using 25% of the payments received from the developer. The outstanding loan balance at September 30, 2006 is \$3,819,000.

In 2006, the City advanced \$630,000 to the Company for the repayment of debt related to HELP loans outstanding with the California Housing Finance Agency. The advance consisted of \$339,000 in principal and \$291,000 in interest.

Note 6 – Fund Balance

In the fund financial statements, a portion of the fund balance is reserved for specific use that is not available for appropriation and the remaining balance is designated for future projects. The composition of the reserved and unreserved portion of fund balance at September 30, 2006 is as follows (in thousands):

Reserved for:	
Replacement and operations	\$ 31
Properties held for resale	995
Unreserved/designated for future projects	<u>8,077</u>
Total fund balance	<u>\$ 9,103</u>

Note 7 – Revenues and Other Financing Sources

The Company is funded by the City of Long Beach's Housing Development Fund (Fund). The Fund's principal revenue sources include the State mandated 20% property tax increment housing set aside from the Redevelopment Agency of the City of Long Beach. An amount of \$2,378,000 was transferred to the Company in the fiscal year ended September 30, 2006, which represents a \$7,025,000 decrease from prior fiscal year. The decrease was attributed to fewer housing projects and development activity that required funding during the current year.

Note 8 – Long-Term Loans Receivable

In the fund financial statements, Company monies loaned out are treated as expenditures when disbursed, as most of the proceeds from these loans will not be available to finance the Company's operations for a minimum of two years, if at all. For financial reporting purposes, those loans for which repayment is reasonably expected have been recorded as a receivable and deferred revenue in the liabilities portion of the balance sheet. Some or all of the Company's remaining loans receivable may be forgiven upon attainment of future conditions. These loans are shown net of an allowance for loans not obligated to be repaid.

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In the entity-wide financial statements, no deferred revenue is recorded as the financial statements are on the accrual basis of accounting.

Long-term receivables consisted of the following at September 30, 2006 (in thousands):

<u>Borrower / Program</u>	<u>Principal Outstanding</u>	<u>Interest Rate</u>	<u>Payment Terms</u>
Habitat for Humanity	\$ 298	0%	These loans do not accrue interest, and are not obligated to repay funds if provisions of the contract are fulfilled. There are three agreements with Habitat for Humanity at September 30, 2006.
HDC-Various	145		These loans, formerly Habitat for Humanity, have been reassigned and transferred to borrowers. Current loan agreements are between the LBHDC and borrowers.
Habitat for Humanity 437 E. 7th Street	1	0%	This loan does not accrue interest. Monthly principal payments started in March 1999.
Second Mortgage Assistance Program	633	0%	Repayment obligation is triggered when the property is sold or transferred, or 30 years from the date of the promissory note. If repayment is triggered during the first 10 years, the Company is also entitled to a proportionate share in any profit realized. After 10 years, only the principal amount is due. There are twenty-six loans outstanding at September 30, 2006.
Various			
Mental Health Association 814 Atlantic Avenue	280	3%	Monthly principal payments of \$2,000 will begin on May 8, 2008. Interest begins accruing on May 8, 2008 and is due and payable in full on May 8, 2023.

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Long-term receivables, continued (in thousands):

<u>Borrower / Program</u>	<u>Principal Outstanding</u>	<u>Interest Rate</u>	<u>Payment Terms</u>
Merit Hall Apartments, Inc. 1035 Lewis Avenue	\$ 400	8%	The loan principal and interest shall be due and payable upon the maturity date of note on July 1, 2033, unless Merit Hall does not fulfill HUDs restrictions, at which the entire principal is due immediately at 8.375%.
Los Angeles Community Design Center 1528-32 Freeman Avenue	405	3%	Annual payments of principal and interest began in November 2002 using 50% of residual receipts. Interest began accruing in November 1999 and amounted to \$62,826 at September 30, 2006.
Down Payment Assistance Program Various	344	0%	Funding assistance is in the form of a conditional grant. No repayment is required unless the borrower violates the terms of the agreement. Repayment is triggered if the property is sold to a non-qualified buyer within the first 10 years, along with 5% of the profit. There are 116 loans outstanding at September 30, 2006.
Atlantic Villas Second Mortgage Assistance Program Various	44	0%	No payment until property defined in the note is sold or transferred, or 30 years from the date of the promissory note. If repayment is triggered during the first 10 years, the Company is also entitled to a proportionate share in any profit realized. After 10 years, only the principal amount is due. There are four loans outstanding at September 30, 2006.
Casa Carino 408 Elm Avenue	286	6.625%	Principal amount accrues simple interest. Principal and interest will be due and payable on the maturity date of the HUD note which is October 1, 2035, or upon satisfaction of the HUD loan, whichever is earlier.

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Long-term receivables, continued (in thousands):

<u>Borrower / Program</u>	<u>Principal Outstanding</u>	<u>Interest Rate</u>	<u>Payment Terms</u>
Multi-Family Rehabilitation Program	\$ 39	4%	Monthly principal and interest payments for 15 years from the date of each individual loan are to be made by the mortgagees to the Company. There are three loans outstanding at September 30, 2006.
Various			
Interest Rate Reduction Grant Programs	21	0% - 10%	Funding assistance is in the form of a conditional grant to permanently buy down the interest rate of an approved real estate loan. No repayment is required unless the property is sold or transferred during the first 10 years. Repayment equals the sum of the principal, less 10% reduction per year, plus 5% profit participation and accrued interest. There are six loans outstanding at September 30, 2006.
Various			
Renaissance Walk -Second Mortgage Assistance Program	561	0% - 5%	Repayment obligation is triggered when the property defined in the note is sold or transferred, or 30 years from the date of the promissory note if the property is the primary residence. If the maturity date is before 30 years, repayment equals the sum of the principal and profit participation and interest. There are nine loans outstanding at September 30, 2006.
Various			
Grisham Community Housing Limited Partnership	7,680	3%	The original principal amount of \$6.5 million was amended to \$7.9 million upon conveyance of the remaining 3 parcels. An amendment to the Disposition and Development Agreement on December 1, 2002 restated the promissory note to \$7,680,000 with 3% annual simple interest. Repayment of loan with interest in arrears from residual receipts commencing on April 1, 2004 to maturity April 1, 2034.
Various			

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Long-term receivables, continued (in thousands):

<u>Borrower / Program</u>	<u>Principal Outstanding</u>	<u>Interest Rate</u>	<u>Payment Terms</u>
Moderate Income Homeowner Rehabilitation Loan Program	\$ 705	3%	Monthly principal and interest payments for 20 years from the date of each individual loan are to be made by the borrowers to the Company. There are nineteen loans outstanding as of September 30, 2006.
Various			
Jamboree Housing Corporation 715 - 745 W. 3rd Street	9,636	0%	This loan does not accrue interest unless the borrower defaults in paying any amount due under the terms of the Promissory Note. Payments of principal and interest (if any) are due annually on April 1, 2006 and each year thereafter, under the residual receipts provision.
Livable Places, Inc. 1856 Long Beach Blvd.-Olive Court	1,169	0%	This loan does not accrue interest unless the borrower defaults in paying any amount due. Under the current terms of the Promissory Note, the outstanding balance is due on January 5, 2007.
Livable Places, Inc. 1908 Long Beach Blvd.-Barcelona	311	0%	This loan does not accrue interest unless the borrower defaults in paying any amount due. Under the current terms of the Promissory Note, the outstanding balance is due on May 31, 2007.
Clifford Beers Housing, Inc. 530 Elm Avenue	89	3%	The \$350,000 loan is 3% on unpaid principal balance. Principal and interest payments are due annually on April 30 of each year from residual receipts commencing in the year in which the release of construction covenants is recorded. Note is due 55 years from the date of recordation of the release of construction covenants or December 31, 2059, whichever comes first.

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Long-term receivables, continued (in thousands):

<u>Borrower / Program</u>	<u>Principal Outstanding</u>	<u>Interest Rate</u>	<u>Payment Terms</u>
Clifford Beers Housing 530 Elm Avenue	\$ 1,324	3%	The \$1,335,000 loan is 3% on unpaid principal balance. Principal and interest payments are due annually on April 30 of each year from residual receipts commencing in the year in which the outstanding loan is disbursed in full. Note is due 55 years from the date of recordation of the release of construction covenants or December 31, 2059, whichever comes first.
Total:	<u>24,371</u>		
Allowance for loans not obligated to be repaid:	<u>(808)</u>		
Long-term loan receivables, net:	<u><u>\$ 23,563</u></u>		

Details for the allowance for loans not obligated to be repaid are as follows (in thousands):

Habitat for Humanity	\$ 443
Down Payment Assistance Program	344
Interest Rate Reduction Grant Program	<u>21</u>
Total	<u><u>\$ 808</u></u>

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In the accompanying fund financial statements, the components of deferred revenue as of September 30, 2006, are as follows (in thousands):

Long-term loan receivables:

Moderate Income Homeowner Rehabilitation Loan Program	\$ 705
Jamboree Housing Corp./West Gateway	9,636
Clifford Beers Housing	89
Clifford Beers Housing	1,324
Livable Places, Inc.	1,480
Habitat for Humanity	1
Mental Health Association	280
Merit Hall	400
Los Angeles Community Design Center	405
Atlantic Villas Second Mortgage Assistance Program	44
Casa Carino	286
Renaissance Walk Second Mortgage Assistance Program	561
Multi Family Rehabilitation Program	39
Second Mortgage Assistance Program	633
Grisham Community Housing Limited Partnership	7,680
Total	<u>\$ 23,563</u>

Note 9 - Properties Held for Resale

The purchase price of the land and buildings acquired by the Company is capitalized at cost as "Properties Held for Resale". In the fund financial statements, the fund balance is reserved for the investment in the land and buildings.

In 2000, the Company purchased a vacant parcel of land for \$750,000 for the development of market rate or affordable housing. In 2005, the Company purchased City-owned land and improvements for \$245,000 for the development of a special needs housing project targeting emancipated youth.

Note 10 - Budgetary Accounting

The Company's annual budget is adopted by the Company's Board of Directors and approved by the City Council before the beginning of the new fiscal year. Any amendments to the budget within the fiscal year are normally caused by changes in available resources and project expenditures. Any change in the total budget must be approved by the Company's Board of Directors and the City Council.

THE LONG BEACH HOUSING DEVELOPMENT COMPANY
(A Component Financial Reporting Unit of the City of Long Beach, California)
Notes to Basic Financial Statements
September 30, 2006

The portion of the Company's budget that relates to projects and grants are mostly allocated over a number of years. Unspent appropriations at the end of a fiscal year are "carried-over" to the next fiscal year. The carry-over budget, in addition to unspent fund balances from the prior fiscal year, are the basis for the carry-over amendment. The carry-over budget is reallocated to meet the goals, objectives and commitments of the Company.

The Budgetary Comparison Statement on page 18 reflects a positive variance of \$596,000, mainly due to the decrease in anticipated expenditures caused by changes in the timing of project expenditures. The unspent appropriation for the projects may be carried-over to the new fiscal year and allocated to various projects.

The following reconciles actual revenues and expenditures for Company funds to the non-GAAP budgetary basis for the fiscal year ended September 30, 2006 (in thousands):

Beginning fund balance at October 1, 2005, on an actual GAAP basis	\$ 13,927
Encumbrance outstanding at October 1, 2005	1
Cumulative effect of capitalization of land held for resale at October 1, 2005	<u>(995)</u>
Beginning fund balance at October 1, 2005, on a budgetary basis	<u>12,933</u>
Actual GAAP basis revenue	3,871
Adjustment to GAAP basis revenues:	
Proceeds from the sale of land for resale	
Revenues on a budgetary basis	<u>3,871</u>
Actual GAAP basis expenditures	8,318
Adjustments to GAAP basis expenditures:	
Current effect of capitalization of land held for resale	-
Loss on sale of land held for resale	<u>-</u>
Expenditures on a budgetary basis	<u>8,318</u>
Excess of revenues under expenditures on a budgetary basis	<u>(4,447)</u>
Other financing uses, on a GAAP basis	(377)
Adjustment to GAAP basis other financing source:	
Advances from Other Funds	<u>(630)</u>
Other financing uses on a budgetary basis	<u>(1,007)</u>
Excess of revenues and other sources under expenditures and other uses, on a budgetary basis	<u>(5,454)</u>
Ending fund balance at September 30, 2006, on a budgetary basis	<u>\$ 7,479</u>

THE LONG BEACH HOUSING DEVELOPMENT COMPANY
(A Component Financial Reporting Unit of the City of Long Beach, California)
Notes to Basic Financial Statements
September 30, 2006

Note 11 - Commitments and Contingencies

Commitments

Available fund balance as of September 30, 2006 is committed to fund development projects, first-time homebuyer programs and moderate-income rehabilitation loan program.

Litigation

The Company is subject to claims and lawsuits arising from the normal course of business. Such claims are routinely evaluated by the Company's general and/or special legal counsel. In the event of litigation, the Company's management may make provision for probable losses if deemed appropriate on advice of legal counsel. In cases where such provision for damages would be considered necessary, appropriate amounts would be reflected in the accompanying basic financial statements. Based upon information obtained from the Company's legal counsel, it is the opinion of management that there are no existing or potential liabilities for claims and suits, which could have a material impact on the Company's basic financial statements.

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**SOUTHEAST RESOURCE RECOVERY FACILITY
JOINT POWERS AUTHORITY**

ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED SEPTEMBER 30, 2006

**SOUTHEAST RESOURCE RECOVERY FACILITY
JOINT POWERS AUTHORITY**

**Annual Financial Report
Fiscal Year Ended September 30, 2006**

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Independent Auditors' Report

The Honorable Mayor and City Council
The City of Long Beach, California

We have audited the accompanying financial statements of the Southeast Resource Recovery Facility Joint Powers Authority (Authority), a component financial reporting unit of the City of Long Beach, California, as of and for the years ended September 30, 2006 and 2005, as listed in the accompanying table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed more fully in note 1, the accompanying financial statements of the Authority are intended to present the financial position and the changes in financial position and cash flows attributable to the Authority. They do not purport to, and do not, present fairly the financial position of the City of Long Beach, California, as of September 30, 2006 and 2005, and the changes in its financial position and its cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of September 30, 2006 and 2005, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated [date of report] on our consideration of the City of Example's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Authority's management has not presented management's discussion and analysis that accounting principles generally accepted in the United States of America requires to supplement, although not to be part of, the financial statements.

KPMG LLP

Laura L Doud, CPA
City Auditor

March 17, 2005

FINANCIAL STATEMENTS

Southeast Resource Recovery Facility
Joint Powers Authority
Statements of Net Assets
September 30, 2006 and 2005
(In Thousands)

	<u>2006</u>	<u>2005</u>
ASSETS		
Restricted Assets:		
Cash and Investments (Note 3)	\$ 12,369	\$ 12,601
Capital Lease Receivable - Current (Note 4)	6,540	6,355
Accounts Receivable	<u>1,567</u>	<u>1,641</u>
Total Restricted Assets - Current	20,476	20,597
 Capital Lease Receivable - Long Term (Note 4)	 101,155	 107,695
Deferred Charges	<u>973</u>	<u>1,053</u>
Total Assets	<u>122,604</u>	<u>129,345</u>
 LIABILITIES		
Current Liabilities Payable from Restricted Assets:		
Interest Payable	1,567	1,641
Bonds Payable - Current (Note 5)	<u>6,540</u>	<u>6,355</u>
Total Current Liabilities Payable from Restricted Assets	<u>8,107</u>	<u>7,996</u>
Long-Term Obligations:		
Bonds Payable - Long Term (Note 5)	101,155	107,695
Plus Unamortized Bond Premium Less Deferred Costs (Notes 2 and 5)	1,866	1,672
Deferred Credits (Note 4)	<u>2,462</u>	<u>3,357</u>
Total Long-Term Obligations	<u>105,483</u>	<u>112,724</u>
Total Liabilities	<u>113,590</u>	<u>120,720</u>
 NET ASSETS		
Restricted for Debt Service (Note 3):		
Bond Reserve	11,706	11,442
Bond Interest and Principal	12	3
Bond Project	651	1,156
Unrestricted	<u>(3,355)</u>	<u>(3,976)</u>
Total Net Assets	<u><u>\$ 9,014</u></u>	<u><u>\$ 8,625</u></u>

See accompanying Notes to Financial Statements.

Southeast Resource Recovery Facility
Joint Powers Authority
Statements of Revenues, Expenses and Changes in Fund Net Assets
Years Ended September 30, 2006 and 2005
(In Thousands)

	<u>2006</u>	<u>2005</u>
Operating Revenues:		
Income from Capital Lease - Net of excess lease payments of \$285 and \$559 (Note 3) in 2006 and 2005, respectively and amortization of deferred credits of \$895 and \$896 respectively (Note 4) in 2006 and 2005.	<u>\$ 5,353</u>	<u>\$ 5,277</u>
Operating Expenses:		
Amortization of Bond Discount/Deferred Costs (Note 5)	194	193
Amortization of Deferred Charges	80	80
Other Expenses	<u>540</u>	<u>934</u>
Total Operating Expenses	<u>814</u>	<u>1,207</u>
Operating Income	<u>4,539</u>	<u>4,070</u>
Non-Operating Income (Expense):		
Interest from Investments	589	579
Interest Expense	<u>(4,739)</u>	<u>(4,943)</u>
Total Net Non-Operating Expenses	<u>(4,150)</u>	<u>(4,364)</u>
Change in Fund Net Assets	389	(294)
Net Assets - October 1	<u>8,625</u>	<u>8,919</u>
Net Assets - September 30	<u><u>\$ 9,014</u></u>	<u><u>\$ 8,625</u></u>

See accompanying Notes to Financial Statements.

Southeast Resource Recovery Facility
Joint Powers Authority
Statements of Cash Flows
Years Ended September 30, 2006 and 2005
(In Thousands)

	<u>2006</u>	<u>2005</u>
Cash Flows from Operating Activities:		
Revenues Received from Capital Lease	\$ 4,817	\$ 4,982
Refund of Excess Lease Payments (Note 4)	(285)	(559)
Other Expenses Paid	(540)	(2,234)
Net Cash Provided by Operating Activities	<u>3,992</u>	<u>2,189</u>
Cash Flows from Capital and Related Financing Activities:		
Payments of Principal on Bonds Payable	(6,355)	(6,185)
Payments of Interest	(4,813)	(4,984)
Net Cash Used for Capital and Related Financing Activities	<u>(11,168)</u>	<u>(11,169)</u>
Cash Flows from Investing Activities:		
Principal Received on Capital Lease	6,355	6,185
Interest Received on Investments	589	579
Net Cash Provided by Investing Activities	<u>6,944</u>	<u>6,764</u>
Net Decrease in Cash and Cash Equivalents	(232)	(2,216)
Cash and Cash Equivalents - October 1	<u>12,601</u>	<u>14,817</u>
Cash and Cash Equivalents - September 30	<u>\$ 12,369</u>	<u>\$ 12,601</u>
<u>RECONCILIATION OF OPERATING INCOME TO NET CASH</u>		
<u>PROVIDED BY OPERATING ACTIVITIES</u>		
Operating Income	<u>\$ 4,539</u>	<u>\$ 4,070</u>
Adjustments to Reconcile Operating Income to		
Net Cash Provided by Operating Activities:		
Amortization of Deferred Credits	(895)	(896)
Amortization of Bond Discount/Deferred Costs	194	193
Amortization of Deferred Charges	80	80
Decrease in Accounts Receivable	74	42
Decrease in Accounts Payable	-	(1,300)
Total Adjustments	<u>(547)</u>	<u>(1,881)</u>
Net Cash Provided by		
Operating Activities	<u>\$ 3,992</u>	<u>\$ 2,189</u>

See accompanying Notes to Financial Statements.

**Southeast Resource Recovery Facility
Joint Powers Authority
Notes to Financial Statements
September 30, 2006 and 2005**

NOTE 1 – ORGANIZATION, PURPOSE AND ACTIVITIES

The Southeast Resource Recovery Facility (SERRF) Authority (Authority) was created pursuant to the provisions of the SERRF Joint Powers Agreement dated December 19, 1984, between the City of Long Beach (City) and the County Sanitation District No. 2 of Los Angeles County (District) for the purpose of constructing a facility to dispose of non-hazardous solid waste and to recover energy there from.

The City leases SERRF from the Authority for purposes of operating the facility. The City's lease payments to the Authority are paid in amounts sufficient to meet the Authority's debt service obligations on the bonds during the year, as well as pay the Authority's administrative and other costs. The lease was first amended in October 1995. Under this revised lease the City agreed to annually pay to the Authority a maximum annual rent calculated according to a prescribed formula, not to exceed \$25,361,831. Such annual rental was variable and equaled the sum of scheduled principal, calculated interest, and administrative fees.

The lease was last amended in October 2003. Under the revised lease, the City agrees to annually pay to the Authority amounts sufficient to meet the Authority's debt service obligations on the bonds during the year, and pay the Authority's administrative and other costs. Revenues available in the Authority funds will be credited against the amount to be transferred by the City to the Authority for lease payments. The revised lease is to end at the later of December 1, 2018 or when all bonds of the Authority have been retired or when the energy contract is terminated.

The Authority is a component financial reporting unit of the City of Long Beach, California. In accordance with U.S. generally accepted accounting principles, the Authority's financial statements are included in the City's financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measurement Focus and Basis of Accounting

The accompanying financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Private-sector standards of accounting and financial reporting issued on or before November 30, 1989, are followed by the Authority to the extent that such standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The City of Long Beach and, by consequence, the Authority also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City and the Authority have elected not to follow subsequent private-sector guidance.

**Southeast Resource Recovery Facility
Joint Powers Authority
Notes to Financial Statements
September 30, 2006 and 2005**

Investments

Investments are stated at fair value. The value of each investment is based on independent third party pricing provided to the City of Long Beach.

Capital Lease Receivable

Current and long-term portions of the capital lease receivable are equal to the bonds payable for the 2003 Lease Revenue Refunding Bond Issue.

Operating Revenue and Expenses

Operating revenue is lease payments from the City of Long Beach to meet the Authority's operating expenses to cover debt obligations and other administrative costs.

Deferred Charges and Deferred Costs

Deferred charges represent the accounting loss on the lease associated with the 2003 SERRF Lease Revenue Refunding Bonds (Bonds). Such charges are being amortized over the life of the Bonds.

At September 30, 2006 and 2005, the balance of the account entitled "Unamortized Bond Premium Less Deferred Costs" aggregated \$1,866,000 and \$1,672,000, respectively. As of September 30, 2006 and 2005, the unamortized bond premium relating to the 2003 Bonds aggregated \$5,030,000 and \$5,442,000, respectively. The accounting loss and bond issuance costs amounted to \$3,164,000 and \$3,770,000 at September 30, 2006 and 2005, respectively. Such amounts are being amortized over the life of the refunded debt issues (See Note 5).

Cash and Cash Equivalents with Fiscal Agent

Monies held by the Trustee are regarded as demand deposits and include investment securities that can readily be converted into cash. These funds consist primarily of U.S. Government obligations and securities.

In accordance with U.S. generally accepted accounting principles (GAAP), the Authority has defined such investments as cash equivalents for purposes of preparing the Statements of Cash Flows.

Use of Estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from such estimates.

**Southeast Resource Recovery Facility
Joint Powers Authority
Notes to Financial Statements
September 30, 2006 and 2005**

NOTE 3 - RESTRICTED CASH AND INVESTMENTS

The Authority's bond indenture requires the Trustee to set aside bond and operating proceeds in specified restricted-use accounts. A description of these accounts follows:

Revenue Account - is used to account for and hold in trust all revenues. Monies in the revenue account are used for the payment of principal and interest. At September 30, 2006 and 2005, the balance of the Bond Account was zero.

Interest and Principal Accounts – are used to pay interest and principal on the bonds when due. At September 30, 2006 and 2005, the balance in these accounts was \$12,000 and \$3,000 respectively.

Project Account - is used to account for and hold in trust all revenues deposited to the project account used to reimburse city projects per the amended lease agreement for the 2003 bonds. At September 30, 2006 and 2005, the balance in the Project Account was \$651,000 and \$1,156,000, respectively.

Reserve Account - is used to provide for timely payment of bond principal and interest if no other monies are available. Under the terms of the bond indenture, the balance in this account must be maintained at an amount at least equal to the maximum annual debt service or \$11,175,000. At September 30, 2006 and 2005, the balances of the Bond Reserve Account aggregated \$11,706,000 and \$11,442,000, respectively, which is \$531,000 and \$267,000 in excess of the required reserve for the 2003 Bonds at September 30, 2006 and 2005, respectively. In accordance with provisions of the lease agreement, capital lease payments required from the City aggregating \$285,000 and \$559,000 were in excess of the reserve requirements which reduced lease payments made by the City in fiscal years 2006 and 2005 and was refunded to the City for fiscal years 2006 and 2005, respectively.

Restricted cash and investments in the Project, Principal and Bond Reserve Accounts are stated at fair value at September 30, 2006 and 2005.

Currently, funds maintained by the Trustee are invested in Guaranteed Investment Contract and other investments as permitted by the Authority's bond indenture. Investments are held in safekeeping by the Trustee in the Authority's name. Restricted cash and investments stated at fair value, in accordance with GASB Statement No. 31, including accrued interest thereon, and net of premiums and discounts, consisted of the following at September 30 (in thousands):

	2006	2005
Cash in Bank	\$ 543	\$ 270
City of Long Beach Treasurer's Investment Pool	651	1,156
Guaranteed Investment Contract	11,175	11,175
Total Restricted Cash and Investments	<u>\$12,369</u>	<u>\$12,601</u>

**Southeast Resource Recovery Facility
Joint Powers Authority
Notes to Financial Statements
September 30, 2006 and 2005**

At September 30, 2006 and 2005, the bank balance was equal to \$543,000 and \$270,000, respectively.

The SERRF pooled cash and cash equivalents amount as of September 30, 2006 and 2005 was \$651,000 or .0453% of the City of Long Beach (City) pooled cash and investments of \$1,438,524,000, and \$1,156,000 or .087% of the City pooled cash and investments of \$1,330,217,000, respectively. Cash and Investments are classified in the Authority's financial statements as follows as of September 30 (in thousands):

	<u>2006</u>	<u>2005</u>
Statement of net assets:		
Cash and investments in City pool	\$ 651	\$ 1,156
Cash and investments held by bond trustee	11,718	11,445
Total cash and investments	<u>\$ 12,369</u>	<u>\$ 12,601</u>

Investments Authorized by the California Government code and the City's Investment Policy

The table below identifies the investment types that are authorized for the City by the City's investment policy. The table also identifies certain provisions of the city's investment policy that address interest rate risk, credit risk, and concentration of credit risk. This table does not address debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the City, rather than the general provision of the California Government Code or the City's investment policy.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Bonds issued by the City	5 years *	30%	None
U.S. Treasury notes, bonds, or bills	5 years *	None	None
Registered state warrants or treasury notes or bonds of the State of California	5 years *	30%	None
Local Agency Bonds	5 years *	30%	None
Federal agency securities	5 years *	None	None
Banker's Acceptances	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years *	30%	10%
Time Certificates of Deposit	5 years *	100%	10%
Repurchase Agreements	90 days	100%	None
Reverse Repurchase Agreements	92 days	20%	None
Securities Lending Program	92 days	20%	None
Medium-Term Notes	5 years *	30%	10%
Money Market Funds	N/A	20%	10%
Local Agency Investment Fund (LAIF)	N/A	None	\$40 million per account
Asset-backed Securities	5 years	20%	None
Mortgage-backed Securities	5 years	20%	None

* Maximum maturity of five (5) years unless a longer maturity is approved by the City Council, either specifically or as part of an investment program, at least three (3) months prior to purchase.

**Southeast Resource Recovery Facility
Joint Powers Authority
Notes to Financial Statements
September 30, 2006 and 2005**

Investments Authorized by Debt Agreements

Investment of debt proceeds held by bond trustee is governed by provisions of the debt agreements.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates that will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments, and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming closer to maturity evenly over time as necessary to provide cash flow and liquidity needed for operations.

The following schedule indicates the interest rate risk of the City's investments which includes the amounts the Authority invests with the City as of September 30 (in thousands):

Investment Type	<u>2006</u>		<u>2005</u>	
		Weighted Average Maturity (in years)		Weighted Average Maturity (in years)
Inter-Department Loan (Health Savrs)	\$3,297	12.600	3,502	13.570
U.S. Treasury Notes	214,467	1.542	275,731	1.990
U.S. Treasury Bonds	-	-	10,513	0.030
Federal agency securities	1,042,876	1.572	858,461	1.310
Medium-Term Notes	33,464	1.609	95,404	0.840
Money Market Funds	-	0.000	34	0.000
Short-term Commercial Paper	132,731	0.013	-	0.000
Local Agency Investment Fund (LAIF)	2,921	0.003	94,981	0.490
Subtotal City Pool	\$1,429,756		\$1,338,626	
Cash on Hand	26,811		11,499	
Outstanding Checks	(18,043)		(19,908)	
Total City Pool	<u>\$1,438,524</u>		<u>\$1,330,217</u>	

The following schedule indicates the interest rate risk of SERRF's non-pooled investments as of September 30 (in thousands):

	<u>2006</u>	<u>2005</u>
Guaranteed Investment Contracts	\$ 11,175	\$ 11,175
Money Market Funds	543	270
	<u>\$ 11,718</u>	<u>\$ 11,445</u>

Investments with Fair Values Highly Sensitive to Investment Risk

The City had no investments with values that were highly sensitive to investment risk as

**Southeast Resource Recovery Facility
Joint Powers Authority
Notes to Financial Statements
September 30, 2006 and 2005**

of September 30, 2006.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the California Government Code, the City's investment policy, and the actual rating as of year-end for each investment type (in thousands):

Rating as of Year End 2006								
<u>City's Pooled Investments</u> <u>Investment Type</u>		<u>Minimum</u> <u>Legal</u> <u>Rating</u>	<u>Not Required</u> <u>To Be Rated</u>	<u>A-1+</u>	<u>A-1</u>	<u>AAA</u>	<u>AA-</u>	<u>Unrated</u>
Inter-Department Loan (Health Savrs)	\$ 3,297	N/A	\$ 3,297	\$ -	\$ -	\$ -	\$ -	\$ -
U.S. Treasury Notes	214,467	N/A	214,467	-	-	-	-	-
Federal agency securities	1,042,876	N/A	-	-	-	1,042,876	-	-
Medium-Term Notes	33,464	A	-	-	-	28,445	5,019	-
Short-term Commercial Paper	132,731	N/A	-	75,773	56,958	-	-	-
Local Agency Investment Fund (LAIF)	2,921	N/A	2,921	-	-	-	-	-
Subtotal City Pool	1,429,756		220,685	75,773	56,958	1,071,321	5,019	-
Cash on Hand	26,811		-	-	-	-	-	26,811
Outstanding Checks	(18,043)		-	-	-	-	-	(18,043)
Total City Pool	<u>\$ 1,438,524</u>		<u>\$ 220,685</u>	<u>\$ 75,773</u>	<u>\$ 56,958</u>	<u>\$ 1,071,321</u>	<u>\$ 5,019</u>	<u>\$ (8,768)</u>

Rating as of Year End 2006								
<u>SERRF's Non-Pooled Investments</u> <u>Investment Type</u>		<u>Minimum</u> <u>Legal</u> <u>Rating</u>	<u>Not Required</u> <u>To Be Rated</u>	<u>A-1+</u>	<u>A-1</u>	<u>AAA</u>	<u>AA-</u>	<u>Unrated</u>
Guaranteed Investment Contracts	\$ 11,175	N/A	\$ 11,175	\$ -	\$ -	\$ -	\$ -	\$ -
Money Market Funds	543	N/A	543	-	-	-	-	-
Total held by Bond Trustees	<u>\$ 11,718</u>		<u>\$ 11,718</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Rating as of Year End 2005								
<u>City's Pooled Investments</u> <u>Investment Type</u>		<u>Minimum</u> <u>Legal</u> <u>Rating</u>	<u>Not Required</u> <u>To Be Rated</u>	<u>AAA</u>	<u>Aa</u>	<u>A</u>	<u>Unrated</u>	
Inter-Department Loan (Health Savrs)	\$ 3,502	N/A	\$ 3,502	\$ -	\$ -	\$ -	\$ -	
U.S. Treasury Notes	275,731	N/A	275,731	-	-	-	-	
U.S. Treasury Bonds	10,513	N/A	10,513	-	-	-	-	
Federal agency securities	858,461	N/A	-	858,461	-	-	-	
Medium-Term Notes	95,404	A	-	71,783	5,018	18,603	-	
Money Market Funds	34	N/A	34	-	-	-	-	
Local Agency Investment Fund (LAIF)	94,981	N/A	-	-	-	-	94,981	
Subtotal City Pool	1,338,626		289,780	930,244	5,018	18,603	94,981	
Cash on Hand	11,499		-	-	-	-	11,499	
Outstanding Checks	(19,908)		-	-	-	-	(19,908)	
Total City Pool	<u>\$ 1,330,217</u>		<u>\$ 289,780</u>	<u>\$ 930,244</u>	<u>\$ 5,018</u>	<u>\$ 18,603</u>	<u>\$ 86,572</u>	

Rating as of Year End 2005								
<u>SERRF's Non-Pooled Investments</u> <u>Investment Type</u>		<u>Minimum</u> <u>Legal</u> <u>Rating</u>	<u>Not Required</u> <u>To Be Rated</u>	<u>AAA</u>	<u>Aa</u>	<u>A</u>	<u>Unrated</u>	
Guaranteed Investment Contracts	\$ 11,175	N/A	\$ 11,175	\$ -	\$ -	\$ -	\$ -	
Money Market Funds	270	N/A	270	-	-	-	-	
Total held by Bond Trustees	<u>\$ 11,445</u>		<u>\$ 11,445</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	

**Southeast Resource Recovery Facility
Joint Powers Authority
Notes to Financial Statements
September 30, 2006 and 2005**

Concentration of Credit Risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer that represent 5% or more on total City's pooled investments are as follows (in thousands):

Issuer	Investment Type	Reported Amount	
		2006	2005
FFCB Total	Federal Agency Securities	\$ 181,052	\$ 194,999
FHLB Total	Federal Agency Securities	241,246	204,151
FHLMC Total	Federal Agency Securities	266,937	216,462
FNMA Total	Federal Agency Securities	353,641	237,814
U.S. Treasuries	U.S. Treasury Notes & bonds	214,467	-
Commercial Paper	Unsecured Corporate debt	132,731	-
Local Agency Investment Fund (LAIF)	Local Agency Investment Fund (LAIF)	-	94,914

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits. The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

All securities owned by the City are deposited in trust for safekeeping with a custodial bank different from the City's primary bank except for one City issued bond and investment in the State's Local Area Investment Fund.

As of September 30, 2006, the City reports deposits of \$26,811,000 less \$18,043,000 for checks outstanding. As of September 30, 2005 City Deposits were \$11,499,000 less \$19,908,000 for checks outstanding.

**Southeast Resource Recovery Facility
Joint Powers Authority
Notes to Financial Statements
September 30, 2006 and 2005**

Investment in State Investment Pool

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code section 16429 under the oversight of the Treasurer of the State of California. The fair value of the City's investment in this pool is reported in the accompanying financial statements at amounts based upon the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are mortgage-backed securities, loans to certain state funds, securities with interest rates that vary according to changes in rates greater than a one-for-one basis, and structured basis.

NOTE 4 - CAPITAL LEASE RECEIVABLE AND DEFERRED CREDITS

The City leases SERRF from the Authority and the lease terminates at the later of December 1, 2018, when all bonds of the Authority have been retired or when the energy contract is terminated. Upon termination of the lease between the Authority and the City, the ownership of SERRF will revert to the City. Accordingly, the lease has been accounted for as a capital lease. The capital lease receivable in the accompanying financial statements totaled \$107,695,000 and \$114,050,000 as of September 2006 and 2005, respectively and represents the present value of the future lease payments and approximates the principal amount of the bonds payable; therefore, the terms of the capital lease receivable mirror the terms of the bonds payable (see Note 5).

The excess of the lease receivable over the recorded value of the facility and land as of July 1, 1989 has been deferred in the accompanying financial statements creating a deferred credit. This deferred credit is being amortized on the straight-line basis over the life of the original bonds (see Note 5); the balance is scheduled to be fully amortized by September 30, 2009. A summary of amortization of deferred credits is as follows (in thousands):

	<u>2006</u>	<u>2005</u>
Balance, October 1	\$3,357	\$4,253
Amortized to Rental Income	(895)	(896)
Balance September 30	<u>\$2,462</u>	<u>\$3,357</u>

NOTE 5 - BONDS PAYABLE

In December 1995, the Authority advance refunded the 1985, 1986 and 1986-2 SERRF Revenue Bonds (original bonds). Proceeds from the issuance of the 1995 SERRF Lease Revenue Refunding Bonds (1995 Bonds), as well as bond reserve and remaining funds from the previous 1985 and 1986 issues, were used to refund, in full, the outstanding principal, interest and premium of all original bonds and to pay costs of issuance incurred in connection with the new issuance. The 1995 advance refunding extended the lease from December 1, 2008 to December 1, 2018. Consequently, the annual rental payment, based

**Southeast Resource Recovery Facility
Joint Powers Authority
Notes to Financial Statements
September 30, 2006 and 2005**

on the effective fixed interest rate of 6.715%, decreased from \$18,500,000 to approximately \$12,800,000 for the highest annual debt service amount. The effective interest rate of 6.715% for the rental payment received from the City was the "Swap Interest Rate" as determined by the City's agreement with its investment broker. This effective interest rate also considered letter of credit fees and remarketing fees. As of May 31, 2002, the swap agreement terminated.

In October 2003, the Authority issued \$120,235,000 in lease revenue bonds Series A and Series B (2003 Bonds) to current refund the Authority's Lease Revenue Refunding Bonds, Series 1995A and Series 1995B, finance certain public improvement projects in the City, fund a reserve fund for the Series 2003 Bonds and pay certain costs of issuance. As a result of the refunding, there are no amounts outstanding for the 1995 Bonds in the accompanying financial statements. The 2003 Bonds are payable through December 1, 2018 with interest rates ranging from 2% through 5.375%. The refunding issue resulted in an accounting loss of approximately \$2,109,000, which will be recognized over the life of the bonds. Aggregate debt service increased by approximately \$4.9 million over the next fifteen years to level overall debt service requirements thereby resulting in an economic loss of approximately \$6.4 million.

Current and long-term portions of bonded indebtedness at September 30, 2006 and 2005 aggregated \$107,695,000 and \$114,050,000, respectively.

Long-term liability activity for the years ended September 30, 2006 and 2005 was as follows

	Balance at October 1, 2005	Additions	Reductions	Balance at September 30, 2006	Due Within One Year
Bonds Payable					
Revenue Bonds	\$ 114,050	\$ -	\$ (6,355)	\$ 107,695	\$ 6,540
Plus (less) deferred amount					
Premium	5,442	-	(412)	5,030	-
Refunding	(1,335)	-	421	(914)	-
Issuance Cost	(2,435)	-	185	(2,250)	-
Total Bonds Payable	<u>\$ 115,722</u>	<u>\$ -</u>	<u>\$ (6,161)</u>	<u>\$ 109,561</u>	<u>\$ 6,540</u>
	Balance at October 1, 2004	Additions	Reductions	Balance at September 30, 2005	Due Within One Year
Bonds Payable					
Revenue Bonds	\$ 120,235		\$ (6,185)	\$ 114,050	\$ 6,355
Plus (less) deferred amount					
Premium	5,856	-	(414)	5,442	-
Refunding	(1,757)	-	422	(1,335)	-
Issuance Cost	(2,620)	-	185	(2,435)	-
Total Bonds Payable	<u>\$ 121,714</u>	<u>\$ -</u>	<u>\$ (5,992)</u>	<u>\$ 115,722</u>	<u>\$ 6,355</u>

**Southeast Resource Recovery Facility
Joint Powers Authority
Notes to Financial Statements
September 30, 2006 and 2005**

At September 30, 2006 annual debt service requirements to maturity are as follows (in thousands):

Year-end September 30	Principal	Interest	Total
2007	\$ 6,540	\$ 4,635	\$ 11,175
2008	6,690	4,478	11,168
2009	6,860	4,312	11,172
2010	7,050	4,121	11,171
2011	7,305	3,860	11,165
2012-2016	42,230	13,621	55,851
2017-2019	31,020	2,492	33,512
Totals	<u>\$ 107,695</u>	<u>\$ 37,519</u>	<u>\$ 145,214</u>

Redemption

Extraordinary Redemption. The series 2003 Bonds are subject to redemption by the Authority on any date prior to their respective stated maturities, upon notice as hereinafter provided, as a whole, or in part by lot within each stated maturity in integral multiples of \$5,000, from prepayments made by the City pursuant to the Lease and deposited by the Trustee in the Principal Account, at a prepayment price equal to the sum of the principal amount thereof, without premium, plus accrued interest thereon to the redemption date. Whenever less than all of the Outstanding Series 2003 Bonds of a series are to be redeemed on any one date, the Trustee shall select the Series 2003 Bonds of such series to be redeemed in part from the Outstanding Series 2003 Bonds of such series on a *pro rata* basis so that the aggregate annual Debt Service on Series 2003 Bonds that shall be payable after such redemption date shall be as nearly proportional as practicable to the aggregate annual Debt Service on Series 2003 Bonds Outstanding prior to such redemption date.

Mandatory Sinking Account Redemption. The Series 2003A Bonds (Non-AMT) maturing on December 1, 2016, upon notice as provided in the Indenture, shall also be subject to mandatory sinking account redemption prior to maturity, in part on December 1, 2015, by lot, from and in the amount of the Mandatory Sinking Account Payments set forth below at a redemption price equal to the sum of the principal amount thereof plus accrued interest thereon to the redemption date, without premium:

**Southeast Resource Recovery Facility
Joint Powers Authority
Notes to Financial Statements
September 30, 2006 and 2005**

<u>Redemption Date</u> <u>(December 1)</u>	<u>Mandatory Sinking</u> <u>Account Payment</u>
2015	\$6,425,000
2016 *	5,290,000

* Final maturity of Series 2003A Term Bond (Non-AMT)

Optional Redemption. The Series 2003 Bonds maturing on and after December 1, 2014 are subject to redemption prior to their respective stated maturities at the written direction of the Authority, from moneys deposited by the Authority or the City in the Principal Account, as a whole or in part (in such order of maturity as designated in writing by the City to the Trustee) on any date on or after December 1, 2013, at a redemption price equal to the sum of the principal amount thereof, plus accrued interest thereon to the date fixed for redemption, without premium.

**SOUTHEAST RESOURCE RECOVERY FACILITY
JOINT POWERS AUTHORITY**

**Statement of Physical Condition of the Plant
(Not Covered by Independent Auditors' Report)**

September 30, 2006

Long Beach, California



AQUARIUM OF THE PACIFIC

(A Public/Private Partnership of the City of Long Beach, California,
and the Aquarium of the Pacific Corporation)

Consolidating Financial Statements

September 30, 2006 and 2005

(With Independent Auditors' Report Thereon)



KPMG LLP
Suite 2000
355 South Grand Avenue
Los Angeles, CA 90071-1568

Independent Auditors' Report

The Honorable City Council
City of Long Beach, California

The Board of Directors
Aquarium of the Pacific Corporation:

We have audited the accompanying consolidating statements of financial position of the Aquarium of the Pacific (the Aquarium), a public/private partnership of the City of Long Beach, California (the City), and the Aquarium of the Pacific Corporation (the Corporation), as of September 30, 2006 and 2005, and the related consolidating statements of activities, functional expenses, and cash flows for the years then ended. These consolidating financial statements are the responsibility of the Corporation and City managements. Our responsibility is to express opinions on the consolidating financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Aquarium's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provide a reasonable basis for our opinions.

The accompanying consolidating financial statements were prepared to present the public/private partnership between the City and the Corporation pursuant to the Continuing Disclosure Agreement described in notes 1 and 2, and are not intended to be a complete presentation of the City's individual financial statements.

In our opinion, the consolidating financial statements referred to above present fairly, in all material respects, the consolidated and individual financial position of the Aquarium of the Pacific as of September 30, 2006 and 2005, and the consolidated and individual changes in its net assets and its consolidated and individual cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 8, 2007 on our consideration of Aquarium of the Pacific internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

This report is intended solely for the information and use of the City of Long Beach's City Council, the Board of Directors of the Corporation, the managements of the City and the Corporation, the Long Beach Bond Financing Authority, the Redevelopment Agency of the City of Long Beach, and the U.S. Bank Trust National Association and is not intended to be, and should not be, used by anyone other than these specified parties.

KPMG LLP

January 8, 2007

AQUARIUM OF THE PACIFIC
(A Public/Private Partnership of the City of Long Beach, California,
and the Aquarium of the Pacific Corporation)
Consolidating Statement of Financial Position
September 30, 2006

Assets	Aquarium of the Pacific Corporation			City of Long Beach	Eliminations (note 1)	Consolidated total
	Unrestricted	Temporarily restricted	Total			
Cash and cash equivalents	\$ 395,001	1,597,490	1,992,491	—	—	1,992,491
Accrued interest receivable	—	—	—	252,478	—	252,478
Accounts receivable, net of allowance for doubtful accounts of \$1,084,948 (note 10)	1,916,743	—	1,916,743	—	—	1,916,743
Contributions receivable, net (note 8)	4,650	417,267	421,917	—	—	421,917
Prepaid expenses and other assets	241,833	—	241,833	—	—	241,833
Gift store inventory	279,362	—	279,362	—	—	279,362
Restricted investments held by trustee (notes 3 and 5)	—	—	—	15,279,335	—	15,279,335
Other assets	282,447	—	282,447	—	—	282,447
Deferred financing costs, net	—	—	—	2,737,698	—	2,737,698
Property and equipment, net (note 4)	8,012,798	—	8,012,798	76,474,312	(9,236,020)	75,251,090
Total assets	<u>\$ 11,132,834</u>	<u>2,014,757</u>	<u>13,147,591</u>	<u>94,743,823</u>	<u>(9,236,020)</u>	<u>98,655,394</u>
Liabilities and Net Assets						
Accounts payable	\$ 2,099,776	—	2,099,776	—	—	2,099,776
Accrued interest payable	—	—	—	2,732,464	—	2,732,464
Accrued liabilities	911,496	—	911,496	—	—	911,496
Deferred revenue	519,317	—	519,317	—	—	519,317
Bonds payable, net of unamortized discounts/deferred amount on refunding aggregating \$9,883,102 (note 5)	—	—	—	119,636,898	—	119,636,898
Total liabilities	<u>3,530,589</u>	<u>—</u>	<u>3,530,589</u>	<u>122,369,362</u>	<u>—</u>	<u>125,899,951</u>
Net assets (deficit):						
Unrestricted	7,602,245	—	7,602,245	(27,625,539)	(9,236,020)	(29,259,314)
Temporarily restricted (note 7)	—	2,014,757	2,014,757	—	—	2,014,757
Total net assets (deficit)	<u>7,602,245</u>	<u>2,014,757</u>	<u>9,617,002</u>	<u>(27,625,539)</u>	<u>(9,236,020)</u>	<u>(27,244,557)</u>
Commitments and contingencies (notes 6 and 9)	—	—	—	—	—	—
Total liabilities and net assets	<u>\$ 11,132,834</u>	<u>2,014,757</u>	<u>13,147,591</u>	<u>94,743,823</u>	<u>(9,236,020)</u>	<u>98,655,394</u>

See accompanying notes to consolidating financial statements.

AQUARIUM OF THE PACIFIC
(A Public/Private Partnership of the City of Long Beach, California,
and the Aquarium of the Pacific Corporation)
Consolidating Statement of Financial Position
September 30, 2005

Assets	Aquarium of the Pacific Corporation			City of Long Beach	Eliminations (note 1)	Consolidated total
	Unrestricted	Temporarily restricted	Total			
Cash and cash equivalents	\$ 459,761	647,599	1,107,360	—	—	1,107,360
Accrued interest receivable	—	—	—	248,611	—	248,611
Accounts receivable, net of allowance for doubtful accounts of \$658,255 (note 10)	1,714,907	—	1,714,907	—	—	1,714,907
Contributions receivable, net (note 8)	265,302	359,208	624,510	—	—	624,510
Prepaid expenses and other assets	241,241	—	241,241	—	—	241,241
Gift store inventory	245,574	—	245,574	—	—	245,574
Restricted investments held by trustee (notes 3 and 5)	—	—	—	14,795,772	—	14,795,772
Other assets	312,327	—	312,327	—	—	312,327
Deferred financing costs, net	—	—	—	2,633,370	—	2,633,370
Property and equipment, net (note 4)	7,353,770	—	7,353,770	80,016,235	(9,611,722)	77,758,283
Total assets	\$ 10,592,882	1,006,807	11,599,689	97,693,988	(9,611,722)	99,681,955
Liabilities and Net Assets						
Accounts payable	\$ 1,596,356	—	1,596,356	—	—	1,596,356
Accrued interest payable	—	—	—	2,732,464	—	2,732,464
Accrued liabilities	1,101,366	—	1,101,366	—	—	1,101,366
Deferred revenue	932,255	—	932,255	—	—	932,255
Bonds payable, net of unamortized discounts/deferred amount on refunding aggregating \$10,500,886 (note 5)	—	—	—	119,019,114	—	119,019,114
Total liabilities	3,629,977	—	3,629,977	121,751,578	—	125,381,555
Net assets (deficit):						
Unrestricted	6,962,905	—	6,962,905	(24,057,590)	(9,611,722)	(26,706,407)
Temporarily restricted (note 7)	—	1,006,807	1,006,807	—	—	1,006,807
Total net assets (deficit)	6,962,905	1,006,807	7,969,712	(24,057,590)	(9,611,722)	(25,699,600)
Commitments and contingencies (notes 6 and 9)	—	—	—	—	—	—
Total liabilities and net assets	\$ 10,592,882	1,006,807	11,599,689	97,693,988	(9,611,722)	99,681,955

See accompanying notes to consolidating financial statements.

AQUARIUM OF THE PACIFIC
(A Public/Private Partnership of the City of Long Beach, California
and the Aquarium of the Pacific Corporation)

Consolidating Statement of Activities

Year ended September 30, 2006

	Aquarium of the Pacific Corporation			City of Long Beach	Eliminations	Consolidated total
	Unrestricted	Temporarily restricted	Total			
Operating revenues (note 5):						
Admissions	\$ 14,457,695	—	14,457,695	—	—	14,457,695
Facility rental	—	—	—	28,875,887	(28,875,887)	—
Memberships	3,539,775	—	3,539,775	—	—	3,539,775
Educational programs	1,316,528	—	1,316,528	—	—	1,316,528
Gift store	3,996,539	—	3,996,539	—	—	3,996,539
Contributions	1,021,532	1,867,596	2,889,128	—	—	2,889,128
Ancillary	604,365	—	604,365	—	—	604,365
Food service	656,892	—	656,892	—	—	656,892
Fund-raising events	462,833	—	462,833	—	—	462,833
Donated goods and services	987,055	—	987,055	—	—	987,055
Parking garage	1,499,200	—	1,499,200	—	—	1,499,200
Grants and other income	58,874	4,335	63,209	—	—	63,209
Net assets released from restriction for operations (note 7)	863,981	(863,981)	—	—	—	—
Total operating revenues	29,465,269	1,007,950	30,473,219	28,875,887	(28,875,887)	30,473,219
Operating expenses:						
Husbandry and facilities	6,833,353	—	6,833,353	—	—	6,833,353
Education, interpretation, and outreach	2,567,321	—	2,567,321	—	—	2,567,321
Guest services	3,428,278	—	3,428,278	—	—	3,428,278
Gift store	2,596,177	—	2,596,177	—	—	2,596,177
Facility operating expense	—	—	—	25,922,000	(25,922,000)	—
Development and membership	2,148,085	—	2,148,085	—	—	2,148,085
Marketing	4,322,834	—	4,322,834	—	—	4,322,834
Human resources	581,627	—	581,627	—	—	581,627
Finance and administration	2,338,574	—	2,338,574	—	—	2,338,574
Net operating transfer to the City of Long Beach	2,953,887	—	2,953,887	—	(2,953,887)	—
Total operating expenses	27,770,136	—	27,770,136	25,922,000	(28,875,887)	24,816,249
Earnings before interest, taxes, depreciation, and amortization from operations	1,695,133	1,007,950	2,703,083	2,953,887	—	5,656,970
Transient occupancy tax transfer from City of Long Beach (note 5)	—	—	—	3,018,762	—	3,018,762
Depreciation and amortization	(1,055,793)	—	(1,055,793)	(4,055,379)	375,702	(4,735,470)
Interest expense, net of bond interest income	—	—	—	(5,485,219)	—	(5,485,219)
Change in net assets (deficit)	639,340	1,007,950	1,647,290	(3,567,949)	375,702	(1,544,957)
Net assets (deficit) at beginning of year	6,962,905	1,006,807	7,969,712	(24,057,590)	(9,611,722)	(25,699,600)
Net assets (deficit) at end of year	\$ 7,602,245	2,014,757	9,617,002	(27,625,539)	(9,236,020)	(27,244,557)

See accompanying notes to consolidating financial statements.

AQUARIUM OF THE PACIFIC
(A Public/Private Partnership of the City of Long Beach, California
and the Aquarium of the Pacific Corporation)

Consolidating Statement of Activities

Year ended September 30, 2005

	Aquarium of the Pacific Corporation			City of Long Beach	Eliminations	Consolidated total
	Unrestricted	Temporarily restricted	Total			
Operating revenues (note 5):						
Admissions	\$ 12,949,795	—	12,949,795	—	—	12,949,795
Facility rental	—	—	—	27,023,960	(27,023,960)	—
Memberships	3,343,271	—	3,343,271	—	—	3,343,271
Educational programs	1,175,692	—	1,175,692	—	—	1,175,692
Gift store	3,955,456	—	3,955,456	—	—	3,955,456
Contributions	867,764	870,707	1,738,471	—	—	1,738,471
Ancillary	491,991	—	491,991	—	—	491,991
Food service	623,366	—	623,366	—	—	623,366
Fund-raising events	392,220	—	392,220	—	—	392,220
Donated goods and services	373,145	—	373,145	—	—	373,145
Parking garage	1,054,987	—	1,054,987	—	—	1,054,987
Grants and other income	498,795	1,938	500,733	275	—	501,008
Net assets released from restriction for operations (note 7)	966,798	(966,798)	—	—	—	—
Total operating revenues	26,693,280	(94,153)	26,599,127	27,024,235	(27,023,960)	26,599,402
Operating expenses:						
Husbandry and facilities	6,107,772	—	6,107,772	—	—	6,107,772
Education, interpretation, and outreach	2,239,019	—	2,239,019	158,965	—	2,397,984
Guest services	3,200,821	—	3,200,821	—	—	3,200,821
Gift store	2,550,688	—	2,550,688	—	—	2,550,688
Facility operating expense	—	—	—	24,664,000	(24,664,000)	—
Development and membership	1,834,709	—	1,834,709	—	—	1,834,709
Marketing	3,680,114	—	3,680,114	—	—	3,680,114
Human resources	660,135	—	660,135	—	—	660,135
Finance and administration	1,974,643	—	1,974,643	275	—	1,974,918
Net operating transfer to the City of Long Beach	2,359,960	—	2,359,960	—	(2,359,960)	—
Total operating expenses	24,607,861	—	24,607,861	24,823,240	(27,023,960)	22,407,141
Earnings (loss) before interest, taxes, depreciation, and amortization from operations	2,085,419	(94,153)	1,991,266	2,200,995	—	4,192,261
Transient occupancy tax transfer from City of Long Beach (note 5)	—	—	—	2,797,782	—	2,797,782
Depreciation and amortization	(676,233)	—	(676,233)	(4,316,348)	375,703	(4,616,878)
Interest expense, net of bond interest income	—	—	—	(5,062,267)	—	(5,062,267)
Change in net assets (deficit)	1,409,186	(94,153)	1,315,033	(4,379,838)	375,703	(2,689,102)
Net assets (deficit) at beginning of year	5,553,719	1,100,960	6,654,679	(19,677,752)	(9,987,425)	(23,010,498)
Net assets (deficit) at end of year	\$ 6,962,905	1,006,807	7,969,712	(24,057,590)	(9,611,722)	(25,699,600)

See accompanying notes to consolidating financial statements.

AQUARIUM OF THE PACIFIC
(A Public/Private Partnership of the City of Long Beach, California,
and the Aquarium of the Pacific Corporation)

Consolidating Statement of Functional Expenses

Year ended September 30, 2006

	Program services				Support services				
	Husbandry and facilities	Education, interpretation, and outreach	Guest services	Gift store	Development and membership	Marketing	Human resources	Finance and administration	Total
Salaries, taxes, and benefits (note 9)	\$ 2,560,255	1,645,902	2,382,732	732,744	758,014	764,748	416,464	1,194,878	10,455,737
Cost of goods sold	—	—	—	1,648,707	—	—	—	—	1,648,707
Insurance	57,952	76,814	76,268	24,836	850	1,029	536	74,688	312,973
Permits, maintenance, and construction	299,147	30,491	20,169	3,132	52	269	377	50,551	404,188
Occupancy (note 6)	—	24,795	1,147	62,154	39,366	40,813	982	140,779	310,036
Utilities	2,374,599	71	—	3,825	—	—	—	—	2,378,495
Husbandry/animals and collecting	311,047	—	—	—	—	—	—	—	311,047
Services	245,406	420,197	302,579	7,030	461,297	401,096	55,825	524,728	2,418,158
Supplies and other expendables	893,491	252,573	356,145	37,633	346,916	55,487	41,101	111,397	2,094,743
Postage, shipping, and courier	12,781	15,240	5,790	2,906	143,546	93,119	1,696	9,673	284,751
Information technology and telecommunications	9,021	5,531	39,771	6,930	1,428	39,322	3,288	142,038	247,329
Printing and publishing	586	19,990	7,741	205	198,075	478,137	2,474	3,634	710,842
Advertising, promotions, and public relations	50	5,055	981	954	3,220	2,208,184	385	9,743	2,228,572
Travel, meals, and training	68,884	69,429	26,556	3,747	26,925	25,190	58,496	34,585	313,812
Other	134	1,233	208,399	61,374	168,396	215,440	3	41,880	696,859
Operating expenses before transient occupancy tax transfer, depreciation and amortization and interest	6,833,353	2,567,321	3,428,278	2,596,177	2,148,085	4,322,834	581,627	2,338,574	24,816,249
Transient occupancy tax transfer	—	—	—	—	—	—	—	(3,018,762)	(3,018,762)
Depreciation and amortization	511,952	1,507,071	2,042,413	15,601	13,372	33,431	13,372	598,258	4,735,470
Interest expense, net of bond interest income	—	—	—	—	—	—	—	5,485,219	5,485,219
Total expenses	\$ 7,345,305	4,074,392	5,470,691	2,611,778	2,161,457	4,356,265	594,999	5,403,289	32,018,176

See accompanying notes to consolidating financial statements.

AQUARIUM OF THE PACIFIC
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Consolidating Statement of Functional Expenses

Year ended September 30, 2005

	Program services				Support services				
	Husbandry and facilities	Education, interpretation, and outreach	Guest services	Gift store	Development and membership	Marketing	Human resources	Finance and administration	Total
Salaries, taxes, and benefits (note 9)	\$ 2,325,520	1,444,039	2,277,925	769,632	655,472	907,516	425,370	1,083,058	9,888,532
Cost of goods sold	—	—	—	1,561,742	—	—	—	—	1,561,742
Insurance	59,432	74,707	74,590	24,864	915	1,109	578	69,466	305,661
Permits, maintenance, and construction	331,063	162,019	32,846	6,887	10	17	—	49,637	582,479
Occupancy (note 6)	6	25,434	79	60,343	34,136	34,899	—	125,046	279,943
Utilities	1,995,878	—	—	3,444	—	—	—	—	1,999,322
Husbandry/animals and collecting	309,269	—	—	—	—	—	—	—	309,269
Services	206,197	425,286	267,271	19,987	422,394	365,395	98,151	261,135	2,065,816
Supplies and other expendables	801,786	117,327	295,577	41,047	80,429	63,703	52,921	128,358	1,581,148
Postage, shipping, and courier	14,329	14,765	9,169	2,318	151,496	52,788	3,031	15,304	263,200
Information technology and telecommunications	7,694	4,868	38,509	1,779	15,835	12,262	2,664	137,923	221,534
Printing and publishing	2,409	72,448	6,951	51	190,500	319,266	8,124	5,599	605,348
Advertising, promotions, and public relations	1,932	4,032	3,437	1,611	1,070	1,957,378	50	3,943	1,973,453
Travel, meals, and training	52,093	57,532	22,890	7,792	55,670	29,082	69,246	30,388	324,693
Other	164	(4,473)	171,577	49,191	226,782	(63,301)	—	65,061	445,001
Operating expenses before transient occupancy tax transfer, depreciation and amortization and interest	6,107,772	2,397,984	3,200,821	2,550,688	1,834,709	3,680,114	660,135	1,974,918	22,407,141
Transient occupancy tax transfer	—	—	—	—	—	—	—	(2,797,782)	(2,797,782)
Depreciation and amortization	462,997	1,411,879	1,647,461	13,142	11,264	28,161	11,264	1,030,710	4,616,878
Interest expense, net of bond interest income	—	—	—	—	—	—	—	5,062,267	5,062,267
Total expenses	\$ 6,570,769	3,809,863	4,848,282	2,563,830	1,845,973	3,708,275	671,399	5,270,113	29,288,504

See accompanying notes to consolidating financial statements.

AQUARIUM OF THE PACIFIC
(A Public/Private Partnership of the City of Long Beach, California,
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Consolidating Statement of Cash Flows

Year ended September 30, 2006

	Aquarium of the Pacific Corporation	City of Long Beach	Eliminations (note 1)	Consolidated total
Cash flows from operating activities and nonoperating revenue:				
Change in net assets (deficit)	\$ 1,647,290	(3,567,949)	375,702	(1,544,957)
Adjustments to reconcile change in net assets (deficit) to net cash provided by operating activities and nonoperating revenue:				
Depreciation and amortization	1,055,793	4,055,379	(375,702)	4,735,470
(Increase) decrease in assets:				
Accrued interest receivable	—	(3,867)	—	(3,867)
Accounts receivable, net	(201,836)	—	—	(201,836)
Contributions receivable	202,593	—	—	202,593
Prepaid expenses and other assets	29,288	—	—	29,288
Gift store inventory	(33,788)	—	—	(33,788)
Increase (decrease) in liabilities:				
Accounts payable	503,420	—	—	503,420
Accrued liabilities	(189,870)	—	—	(189,870)
Deferred revenue	(412,938)	—	—	(412,938)
Net cash provided by operating activities and nonoperating revenue	<u>2,599,952</u>	<u>483,563</u>	<u>—</u>	<u>3,083,515</u>
Cash flows from investing activities:				
Capital expenditures	(1,714,821)	—	—	(1,714,821)
Proceeds from sale of investments held by trustee	—	(483,563)	—	(483,563)
Net cash used in investing activities	<u>(1,714,821)</u>	<u>(483,563)</u>	<u>—</u>	<u>(2,198,384)</u>
Net increase in cash and cash equivalents	885,131	—	—	885,131
Cash and cash equivalents, beginning of year	<u>1,107,360</u>	<u>—</u>	<u>—</u>	<u>1,107,360</u>
Cash and cash equivalents, end of year	<u>\$ 1,992,491</u>	<u>—</u>	<u>—</u>	<u>1,992,491</u>

See accompanying notes to consolidating financial statements.

AQUARIUM OF THE PACIFIC
(A Public/Private Partnership of the City of Long Beach, California,
and the Aquarium of the Pacific Corporation)

Consolidating Statement of Cash Flows

Year ended September 30, 2005

	<u>Aquarium of the Pacific Corporation</u>	<u>City of Long Beach</u>	<u>Eliminations (note 1)</u>	<u>Consolidated total</u>
Cash flows from operating activities and nonoperating revenue:				
Change in net assets (deficit)	\$ 1,315,033	(4,379,838)	375,703	(2,689,102)
Adjustments to reconcile change in net assets (deficit) to net cash provided by (used in) operating activities and nonoperating revenue:				
Depreciation and amortization	676,233	4,316,348	(375,703)	4,616,878
(Increase) decrease in assets:				
Accrued interest receivable	—	(1,381)	—	(1,381)
Accounts receivable, net	(358,488)	—	—	(358,488)
Contributions receivable	491,849	—	—	491,849
Prepaid expenses and other assets	(170,487)	—	—	(170,487)
Gift store inventory	515	—	—	515
Increase (decrease) in liabilities:				
Accounts payable	33,530	—	—	33,530
Accrued liabilities	127,438	—	—	127,438
Deferred revenue	110,795	—	—	110,795
Net cash provided by (used in) operating activities and nonoperating revenue	<u>2,226,418</u>	<u>(64,871)</u>	<u>—</u>	<u>2,161,547</u>
Cash flows from investing activities:				
Capital expenditures	(1,825,567)	—	—	(1,825,567)
Proceeds from sale of investments held by trustee	—	64,871	—	64,871
Net cash provided by (used in) investing activities	<u>(1,825,567)</u>	<u>64,871</u>	<u>—</u>	<u>(1,760,696)</u>
Net increase in cash and cash equivalents	400,851	—	—	400,851
Cash and cash equivalents, beginning of year	706,509	—	—	706,509
Cash and cash equivalents, end of year	<u>\$ 1,107,360</u>	<u>—</u>	<u>—</u>	<u>1,107,360</u>

See accompanying notes to consolidating financial statements.

AQUARIUM OF THE PACIFIC
(A Public/Private Partnership of the City of Long Beach, California,
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Notes to Consolidating Financial Statements

September 30, 2006 and 2005

(1) Description of Business

Organization and Business Activity

The accompanying consolidating financial statements present the financial condition and results of operations and cash flows of the Aquarium of the Pacific (the Aquarium) as of and for the years ended September 30, 2006 and 2005. Such financial statements depict a public/private partnership between the City of Long Beach, California (the City), and the Aquarium of the Pacific Corporation (the Corporation), a California nonprofit public benefit corporation organized as a nonprofit organization under Section 501(c)(3) of the Internal Revenue Code.

Under a formal operating arrangement approved by the City Council of the City of Long Beach and the Corporation's board of directors, the Aquarium's operations are carried out by the Corporation.

In October 1992, the Corporation was organized under the provisions of Internal Revenue Code Section 501(c)(3) as a California nonprofit public benefit corporation. Under its articles of incorporation, the Corporation was organized for the benefit of the general public to promote educational, scientific, and charitable purposes relative to the design, construction, and subsequent operation of a public aquarium and sea life exhibit facility in the City of Long Beach. Since its inception, the Corporation's sole objective has been to manage the operations of the Aquarium.

In May 2001, the City of Long Beach finalized an agreement whereby the Corporation's original outstanding tax-exempt debt would be defeased from funds generated by the sale of \$129,520,000 of Lease Revenue Refunding Bonds (Aquarium of the Pacific Project), Series 2001 (Series 2001 Refunding Bonds) issued by the Long Beach Bond Finance Authority (the Authority). In conjunction with the issuance of the 2001 Series Refunding Bonds, a Continuing Disclosure Agreement was also entered into by the City, the Corporation, the Authority, the Redevelopment Agency of the City of Long Beach (the Agreement) dated as of April 1, 2001.

The Authority was created by the exercise of a joint powers agreement between the City and its affiliated entity, the Redevelopment Agency of the City of Long Beach. The Authority's sole purpose is to act as a vehicle to obtain long-term financing for the City and its Redevelopment Agency. Under the terms of this agreement, the City assumed ownership of all physical plant assets at that time as well as responsibility for the Corporation's then outstanding long-term indebtedness.

For their participation in the partnership, the City receives rent for the use of the Aquarium facility in an amount equal to the "net operating profit" of the Corporation. Under the operating agreement currently in force, such rent is applied to debt service on the outstanding long-term indebtedness. "Net operating profit" is defined as the difference between daily unrestricted operating receipts transferred by the Corporation to the City's trustee, less reimbursements for the costs of operating, including operating capital, and is eliminated in the accompanying consolidating statements of activities.

Unrestricted funds relating to Aquarium operations are held by the City's designated trustee. Formal procedures are in place relating to deposit of operating receipts and withdrawals for operating expenses, including operating capital, from these trustee-maintained accounts. Restricted funds generated by the

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Notes to Consolidating Financial Statements

September 30, 2006 and 2005

Corporation's fund-raising activities, including grants and donations from private or public sources, remain the property of the Corporation. Assets comprising investments held by trustee, fixed assets as of May 2001, certain other assets, and net bonds payable are accounted for in the City's Tidelands Operating Fund, a nonexpendable trust fund of the City. The remaining net assets, including asset acquisitions subsequent to May 2001, remain with the Corporation, which operates as a separate legal 501(c)(3) not-for-profit organization with a separate board of directors who are independent from the City.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying consolidating financial statements of the Aquarium include the accounts maintained by the Corporation and the City, which, in the aggregate, depict the financial condition and results of operations and cash flows of the Aquarium using the accrual basis of accounting. The accompanying consolidating statements of financial position of the Aquarium as of September 30, 2006 and 2005, and the related consolidating statements of activities, functional expenses, and cash flows for the years then ended were prepared to present financial information for the public/private partnership between the City and the Corporation to comply with the reporting requirements pursuant to the Continuing Disclosure Agreement entered into by the City, the Corporation, the Authority, and the Redevelopment Agency of the City of Long Beach. These consolidating financial statements are not intended to be a complete presentation of the City's individual financial statements. Although the Corporation's fiscal year ends December 31, the accompanying consolidating financial statements reflect the 12-month activity for the Aquarium as of and for the years ended September 30, 2006 and 2005. All significant intercompany transactions and accounts have been eliminated in consolidation.

Funds that have similar characteristics have been combined for the accompanying financial statement presentation into these net asset categories:

For the Corporation: temporarily restricted and unrestricted net assets. Unrestricted net assets are not restricted by donors, or the donor-imposed restrictions have expired. Temporarily restricted net assets contain donor-imposed restrictions that require the Corporation to use or expend the assets as specified. The restrictions are satisfied either by the passage of time or by actions of the Corporation's management.

(b) Use of Estimates

The preparation of consolidating financial statements in conformity with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

(c) Cash Equivalents

For purposes of the consolidating statements of cash flows, the Aquarium considers all unrestricted highly liquid investments with an original maturity of three months or less to be cash equivalents.

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Notes to Consolidating Financial Statements

September 30, 2006 and 2005

(d) Gift Store Inventory

Gift store inventory is valued at the lower of cost or market.

(e) Live Animal Inventory

The costs of purchasing or collecting live animals are expensed as incurred. Donated specimens are not valued and, therefore, are not reflected in the consolidating financial statements.

(f) Contributions Receivable

Contributions receivable, less an appropriate allowance for estimated uncollectible amounts, are recorded at their estimated net realizable value. Contributions that are expected to be collected in future years are recorded as contributions receivable at the present value of their estimated cash flows. The Aquarium discounts contributions that are expected to be collected after one year using a risk-free interest rate. Amortization of the discounts is included in contribution revenue.

(g) Property and Equipment

Building and equipment are recorded at cost and are depreciated using the straight-line method over the following estimated useful lives: buildings – 27.5 years and equipment, furniture, and fixtures – 3 to 7 years. Leasehold improvements are amortized over the shorter of the period of the lease or the estimated useful life. Expenditures for repairs and maintenance are charged to expense as incurred. Physical assets as of May 2001 are recorded as City assets, and assets acquired after May 2001 are recorded as Corporation assets.

(h) Revenue Recognition

The Aquarium records its revenues on the accrual basis. In addition, the Aquarium records as revenue the following types of contributions, when they are received unconditionally, at their fair value: cash, promises to give (pledges), and gifts of long-lived and other assets. Conditional contributions are recognized as revenue when the conditions on which they depend have been substantially met.

The Aquarium records the sale of its consignment tickets as deferred revenue. Revenue is recognized in the period in which the tickets are redeemed for admission.

(i) Temporarily Restricted Contributions

The Aquarium records contributions as temporarily restricted if they are received with donor restrictions that limit their use either through purpose or time restrictions. Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received, rather than when the assets are received. The gifts are reported as temporarily or permanently restricted net assets if they are received with donor stipulations that limit the use of the donated assets. When donor restrictions expire, that is, when a purpose restriction is fulfilled or a time restriction ends, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidating statement of activities as net assets released from restrictions.

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(j) *Donated Goods and Services*

The Aquarium records various types of in-kind support including donated professional services and supplies. Contributed professional services are recognized if the services received (a) create or enhance long-lived assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. Contributions of tangible assets are recognized at fair market value when received. The amounts reflected in the accompanying consolidating financial statements as in-kind support are offset by like amounts included in expenses or property, plant, and equipment as appropriate.

A substantial number of unpaid volunteers have made significant contributions of their time that do not meet the two recognition criteria described above. Accordingly, the value of this donated time is not reflected in the consolidating financial statements.

(k) *Functional Allocation of Expenses*

The costs of providing Aquarium programs and administration have been summarized on a functional basis in the accompanying consolidating statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Program and fundraising expenses were \$19,502,166 and \$2,161,457, respectively, for the year ended September 30, 2006. For the year ended September 30, 2005, program and fundraising expenses were \$17,792,744 and \$1,845,973, respectively.

(l) *Income Taxes*

As a nonprofit organization, the Corporation is exempt from federal and state income taxes on related income pursuant to Section 501(a) of the Internal Revenue Code and Section 23701d of the California Revenue and Taxation Code and is generally not subject to federal or state income taxes. However, the Corporation is subject to income taxes on any net income that is derived from a trade or business, regularly carried on and not in furtherance of the purpose for which it was granted exemption. No income tax provision has been recorded as the net income, if any, from any unrelated trade or business, in the opinion of management, is not material to the financial statements taken as a whole.

**(m) *Accounting for the Impairment of Long-Lived Assets and
for Long-Lived Assets to Be Disposed Of***

The Aquarium reviews property and equipment for impairment whenever events or changes in circumstances indicate that the carrying value of the property and equipment may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the asset to future net cash flows, undiscounted and without interest, expected to be generated by the asset. If such asset is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds fair value of the asset. During the years ended September 30, 2006 and 2005, there were no events or changes in circumstances indicating that the carrying amount of property and equipment may not be recoverable.

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Notes to Consolidating Financial Statements

September 30, 2006 and 2005

(n) Reclassifications

Certain reclassifications have been made to the 2005 financial statements to conform to the 2006 presentation. Such reclassifications had no effect on previously reported change in net assets.

(3) Restricted Investments Held by Trustees

Certain assets held by the City are entrusted to third-party trustees and restricted for the operating and capital expenditures of the Aquarium and for the payment of principal and interest on the outstanding Series 2001 Refunding Bonds. Such restricted invested assets consist of money market accounts and guaranteed investment contracts, which are recorded at fair value, based on market and contract values, respectively.

The composition of such restricted invested assets, stated at fair value, at September 30, 2006 and 2005 is as follows:

	<u>2006</u>	<u>2005</u>
U.S. Bank Trust National Association money market accounts	\$ 5,956,422	5,472,859
AMBAC guaranteed investment contract, 6.4% per annum through November 1, 2030	<u>9,322,913</u>	<u>9,322,913</u>
	<u>\$ 15,279,335</u>	<u>14,795,772</u>

(4) Property and Equipment

A summary of the Aquarium physical plant assets, including Corporation and City assets, at September 30, 2006 and 2005 is as follows:

	<u>2006</u>	<u>2005</u>
Land	\$ 9,900,000	9,900,000
Building	91,933,074	91,729,844
Leasehold improvements	140,503	140,503
Furniture and fixtures	948,218	752,412
Equipment	6,901,619	5,751,430
Construction in progress	<u>465,201</u>	<u>299,597</u>
Total	110,288,615	108,573,786
Less accumulated depreciation and amortization	<u>(35,037,525)</u>	<u>(30,815,503)</u>
Property and equipment, net	<u>\$ 75,251,090</u>	<u>77,758,283</u>

In connection with the issuance of the Series 2001 Refunding Bonds (notes 1 and 5), the 1995 ground lease with the City was terminated and the City reassumed rights of ownership. With the reversion of the ground

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lease back to the City, the City recorded the value of the reacquired property at the lease's remaining fair market value consistent with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.

(5) Long-term Debt

Lease Revenue Refunding Bonds (Series 2001 Refunding Bonds)

In May 2001, the Authority issued its Series 2001 Refunding Bonds totaling \$129,520,000 to refund the Corporation's outstanding 1995 Series A and B Long Beach Aquarium Revenue Bonds. Such term bonds require annual mandatory sinking fund payments in varying installments prior to maturity. The following is a summary of long-term debt at September 30, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
2001 Lease revenue refunding tax-exempt serial bonds, maturing on November 1, 2006 through November 1, 2019, interest ranging from 3.875% to 5.500%	\$ 52,710,000	52,710,000
2001 Lease revenue refunding tax-exempt term bonds, maturing on November 1, 2026, 5.000% interest	43,950,000	43,950,000
2001 Lease revenue refunding tax-exempt term bonds, maturing on November 1, 2030, 5.250% interest	<u>32,860,000</u>	<u>32,860,000</u>
	129,520,000	129,520,000
Less unamortized discount on bonds and deferred amount on refunding	<u>(9,883,102)</u>	<u>(10,500,886)</u>
Total long-term debt outstanding, net	<u>\$ 119,636,898</u>	<u>119,019,114</u>

Interest on the Series 2001 Refunding Bonds is payable semiannually. The original issue discount and other costs of issuance totaled approximately \$5,619,957 for the Series 2001 Refunding Bonds, of which approximately \$1,765,157 and \$1,775,045 were amortized as of September 30, 2006 and 2005, respectively.

The gross revenues of the Corporation, as defined, investments held by the trustee, and related earnings are pledged as collateral for debt service. Also pledged are Agency Hotel Taxes as defined in the Owner Participation Agreement and City Available Tidelands Revenues as defined in the City Pledge Agreement, which are used to fund the difference between total debt service and rent paid by the Corporation. For financial statement purposes, rent paid by the Corporation is defined as the difference between daily unrestricted operating receipts transferred by the Corporation to the City's trustee, less reimbursements for the costs of operating, including operating capital. On March 1, 2006, an "Implementation Agreement" was entered into between the Corporation and the Authority, which clarified costs of operating within the definitions included in the 2001 Series Bond Indenture. The Implementation Agreement provided a framework by which the Corporation could execute long-term expansion and renewal of the facility and

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September 30, 2006 and 2005

maximize bondholder security. The bond insurer reviewed and did not object to the agreement, and non-adverse opinions of bond counsel were obtained regarding the consistency of the agreement with the governing bond documents.

A portion of the proceeds of the Series 2001 Refunding Bonds was used to purchase U.S. government securities. Such securities were deposited into an irrevocable trust with an independent escrow agent to provide for all future debt service payments on the then outstanding 1995 Series A and B Long Beach Aquarium Revenue Bonds in existence prior to the issuance of the Series 2001 Refunding Bonds. As a result, the 1995 Series A and B bonds were considered defeased and the liability for those bonds removed from the accompanying consolidating financial statements. The 1995 Series A and B bonds were extinguished in full in July 2005. Under the terms of the Series 2001 Bond Indenture, the Aquarium of the Pacific Project was required to establish and maintain various funds and accounts with the trustee. Such required funds have been classified in the accompanying consolidating financial statements as investments held by trustee. The refunding bond indenture also places limits on the incurrence of additional borrowings the Corporation's and the City's Tidelands Operating Funds requiring that certain measures of compliance and financial performance are satisfied as long as the bonds are outstanding.

The total remaining principal payments of long-term debt amount to \$129,520,000 as of September 30, 2006 and 2005. Pursuant to the chart below, principal payments are scheduled to commence in fiscal year ending 2007:

	Annual debt service requirements		
	Principal	Interest	Total
Fiscal year ending September 30:			
2007	\$ 2,765,000	6,557,913	9,322,913
2008	2,870,000	6,504,341	9,374,341
2009	2,985,000	6,393,369	9,378,369
2010	3,105,000	6,274,403	9,379,403
2011	3,240,000	6,146,856	9,386,856
2012-2016	18,730,000	28,332,150	47,062,150
2017-2021	24,415,000	22,818,913	47,233,913
2022-2026	31,315,000	16,030,375	47,345,375
2027-2031	40,095,000	7,493,281	47,588,281
2032-2036	—	232,444	232,444
Total	\$ 129,520,000	106,784,045	236,304,045

With the issuance of the Series 2001 Refunding Bonds, the City increased its aggregate debt service payments by approximately \$49,176,000 over the life of the newly issued bonds compared to the Aquarium's original 1995 Series A and B bonds. The payment stream was effectively increased 7½ years from July 2023 to November 2030. The refunding resulted in the recognition of an accounting loss of \$11,600,777, which, in accordance with U.S. generally accepted accounting principles applicable to governmental units, has been capitalized and will be amortized over the debt service payment stream of the defeased bonds. Although such termination resulted in a loss for financial reporting purposes of

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\$11,600,777, the net present value of the corresponding economic loss (difference between the aggregate debt service payments of the refunding and refunded issues) aggregated approximately \$2,800,000.

(6) Commitments and Contingencies

(a) Operating Leases

The Aquarium leases various office space and equipment under noncancelable operating leases. Future minimum lease payments under operating leases that have initial or remaining lease terms in excess of one year as of September 30, 2006 are as follows:

2007	\$	184,316
2008		61,475
2009		22,777
2010		21,121
2011		3,601
Thereafter		3,301
	\$	<u>296,591</u>

Rent aggregating \$247,317 and \$241,289 was paid during the years ended September 30, 2006 and 2005, respectively.

(b) Professional Liability Coverage

The Aquarium is insured for professional and general liability claims on a claims made basis to \$20,000,000, with certain sublimits, through the Special Liability Insurance Program, a California public entity sponsored insurance pool. The deductible amount is \$1,000 per claim, except \$5,000 for automobile liability, and is expensed as incurred. Management believes the deductibles to be immaterial and insurance adequate to cover losses incurred.

(c) Litigation

The Aquarium is subject to potential litigation arising in the normal course of business. Management believes they are adequately insured for potential losses that may arise related to such litigation.

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(7) Temporarily Restricted Net Assets

Temporarily restricted net assets as of September 30, 2006 and 2005 consist of the following:

	<u>2006</u>	<u>2005</u>
Marketing	\$ 37,490	47,637
Scholarships	248,422	211,716
Equipment and construction projects	1,261,285	396,036
Education and conservation projects	467,560	351,418
	<u>\$ 2,014,757</u>	<u>1,006,807</u>

During the years ended September 30, 2006 and 2005, net assets were released either by the passage of time or from donor restrictions by incurring expenses as follows:

	<u>2006</u>	<u>2005</u>
Marketing	\$ 12,510	50,625
Scholarships	248,557	183,166
Equipment and construction projects	298,792	465,194
Education and conservation projects	304,122	267,813
	<u>\$ 863,981</u>	<u>966,798</u>

(8) Contributions Receivable

As of September 30, 2006 and 2005, contributions receivable are expected to be received as follows:

	<u>2006</u>	<u>2005</u>
Within one year	\$ 339,428	505,694
Within two to five years	100,000	135,000
	439,428	640,694
Less discount to reflect contributions receivable at present value	(17,511)	(16,184)
Contributions receivable, net	<u>\$ 421,917</u>	<u>624,510</u>

The Aquarium discounts contributions that are expected to be collected after one year using a risk-free interest rate. The interest-free rate used during the years ended September 30, 2006 and 2005 was approximately 4.65%.

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(9) Retirement Plan

The Corporation offers a 457 plan covering all regular employees who have completed 500 hours of service. For the years ended September 30, 2006 and 2005, participants in the plan may make contributions of up to 15% of their base salary. The Aquarium contributes an additional amount equal to 25% of the first 4% of each participant's plan contribution. Total contributions to the plan, including employer match, may not exceed \$15,000 and \$14,000 for the years ended September 30, 2006 and 2005, respectively. Participants are 100% vested in all plan contributions plus actual earnings thereon. The Aquarium's contribution was \$43,492 and \$46,041 for the years ended September 30, 2006 and 2005, respectively.

(10) Related Parties

In May 1997, the City and the Corporation terminated a portion of the October 1995 ground lease between the Corporation and the City described as the "Parking Parcel." The City agreed to construct, operate, and maintain a Public Parking Facility. The Corporation transferred the sum of \$1,500,000 to be applied toward the construction of such Public Parking Facility. The City further agreed during the term of the lease to pay to the Corporation an annual amount of net revenues not to exceed \$1,500,000. The Parking Agreement was included in the new lease between the City and the Corporation dated April 1, 2001, extending the term of the agreement to fiscal year 2031.

The annual revenue due to the Corporation for the years ended September 30, 2006 and 2005 was \$1,500,000 and \$1,054,987, respectively, and is included in accounts receivable for each respective year in the accompanying consolidating statements of financial position.

CITY OF LONG BEACH GAS ENTERPRISE FUND

Financial Statements

September 30, 2006 and 2005

(With Independent Auditors' Report Thereon)

CITY OF LONG BEACH GAS ENTERPRISE FUND

Financial Statements
September 30, 2006 and 2005

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KPMG LLP
Suite 2000
355 South Grand Avenue
Los Angeles, CA 90071-1568

Independent Auditors' Report

The Honorable Mayor and City Council
of the City of Long Beach, California
The Citizens of the City of Long Beach, California:

We have audited the accompanying financial statements of the Gas Enterprise Fund of the City of Long Beach, California (Gas Enterprise Fund), as of and for the years ended September 30, 2006 and 2005, as listed in the table of contents. These financial statements are the responsibility of the City of Long Beach (the City). Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed more fully in note 1 to the financial statements, the financial statements of the Gas Enterprise Fund are intended to present the financial position and the changes in financial position and cash flows of only that portion of activities of the City of Long Beach that is attributable to the transactions of the City's Gas Enterprise Fund. They do not purport to, and do not, present fairly the financial position of the City of Long Beach, California, as of September 30, 2006 and 2005, and the changes in its financial position and, where applicable, its cash flows thereof for the years then ended, in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Gas Enterprise as of September 30, 2006 and 2005, and the changes in its financial position and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 26, 2007 on our consideration of the Gas Enterprise Funds' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The management of the City of Long Beach's Gas Enterprise Fund has not presented management's discussion and analysis that U.S. generally accepted accounting principles required to supplement, although not to be part of, the basic financial statements.

KPMG LLP

June 8, 2007

CITY OF LONG BEACH GAS ENTERPRISE FUND

Statements of Net Assets
September 30, 2006 and 2005
(In thousands)

Assets	2006	2005
Current assets:		
Pooled cash and cash equivalents (note 2)	\$ 10,812	\$ 12,872
Customer accounts receivable, net of allowance for doubtful accounts of \$448 and \$421 at September 30, 2006 and 2005, respectively	3,235	3,618
Due from the City of Long Beach	698	663
Inventory	1,024	1,012
Total current assets	<u>15,769</u>	<u>18,165</u>
Noncurrent assets:		
Restricted assets (note 2):		
Cash	4,093	3,388
Nonpooled investments	650	764
Advance to Tidelands Enterprise Fund (note 3)	4,946	5,645
Other long term receivable	-	-
Allowance for doubtful accounts	-	-
Capital assets (note 4):		
Nondepreciable	5,399	3,883
Depreciable, net	59,875	54,678
Total capital assets, net	<u>65,274</u>	<u>58,561</u>
Total noncurrent assets	<u>74,963</u>	<u>68,358</u>
Total assets	<u>90,732</u>	<u>86,523</u>
Liabilities		
Current liabilities:		
Accounts payable	9,911	8,574
Accrued wages payable	365	318
Due to the City of Long Beach	180	148
Deferred revenues	567	385
Amounts payable from restricted assets:		
Accrued interest payable	29	32
Current portion of long-term debt (note 5)	905	885
Customer deposits	1,822	1,944
Total current liabilities	<u>13,779</u>	<u>12,286</u>
Long-term debt, net of current portion (note 5)	13,350	6,500
Less unamortized discount	(107)	(118)
Net long-term debt	<u>13,243</u>	<u>6,382</u>
Total liabilities	<u>27,022</u>	<u>18,668</u>
Net Assets		
Invested in capital assets, net of related debt	51,125	51,294
Restricted for capital project	2,107	1,357
Restricted for debt service	785	819
Unrestricted	9,693	14,385
Total net assets	<u>\$ 63,710</u>	<u>\$ 67,855</u>

See accompanying notes to financial statements.

CITY OF LONG BEACH GAS ENTERPRISE FUND

Statements of Revenues, Expenses, and Changes in Fund Net Assets
Years ended September 30, 2006 and 2005
(In thousands)

	<u>2006</u>	<u>2005</u>
Operating revenues:		
Sale of gas (note 7)	\$ 100,305	\$ 92,103
Other service charges	<u>7,176</u>	<u>6,895</u>
Total operating revenues	<u>107,481</u>	<u>98,998</u>
Operating expenses:		
Purchase of gas (note 7)	69,643	62,673
Personal services	11,610	11,281
Customer service and general	15,166	9,813
Provision for doubtful accounts	366	341
Depreciation expense (note 4)	<u>3,242</u>	<u>3,007</u>
Total operating expenses	<u>100,027</u>	<u>87,115</u>
Operating income	<u>7,454</u>	<u>11,883</u>
Nonoperating income (expense):		
Interest income	674	562
Interest expense	(401)	(447)
Loss on disposition of property	(443)	(156)
Other income, net	<u>5,572</u>	<u>5,451</u>
Total nonoperating income	<u>5,402</u>	<u>5,410</u>
Net income before transfers	12,856	17,293
Transfers to other City departments (note 6)	<u>(17,001)</u>	<u>(15,497)</u>
Change in net assets	(4,145)	1,795
Total net assets, beginning of year	<u>67,855</u>	<u>66,060</u>
Total net assets, end of year	<u>\$ 63,710</u>	<u>\$ 67,855</u>

See accompanying notes to financial statements.

CITY OF LONG BEACH GAS ENTERPRISE FUND

Statements of Cash Flows Years ended September 30, 2006 and 2005 (In thousands)

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Cash received from customers	\$ 107,558	\$ 97,598
Cash paid to employees	(11,385)	(11,112)
Cash paid to suppliers	<u>(83,631)</u>	<u>(68,266)</u>
Net cash provided by operating activities	<u>12,542</u>	<u>18,219</u>
Cash flows used in noncapital financing activities:		
Transfer to other City Departments	(17,001)	(15,497)
Other income	<u>5,572</u>	<u>5,451</u>
Net cash used in noncapital financing activities	<u>(11,429)</u>	<u>(10,046)</u>
Cash flows from capital and related financing activities:		
Payment of defeased bonds	-	(7,560)
Proceeds from other funds under capital lease receivable	663	633
Payments for capital acquisitions	(10,396)	(5,624)
Principal repayments of long term debt	(885)	(945)
Interest paid	(393)	(517)
Proceeds from issuance of long term obligation	<u>7,755</u>	<u>7,675</u>
Net cash used in capital and related financing activities	<u>(3,256)</u>	<u>(6,338)</u>
Cash flows from investing activities:		
Payments for investments	114	304
Interest income	<u>674</u>	<u>562</u>
Net cash provided by investing activities	<u>788</u>	<u>866</u>
Net decrease in cash and cash equivalents	(1,355)	2,701
Cash and cash equivalents, beginning of year	<u>16,260</u>	<u>13,559</u>
Cash and cash equivalents, end of year	<u>\$ 14,905</u>	<u>\$ 16,260</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	<u>\$ 7,454</u>	<u>\$ 11,883</u>
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	3,242	3,007
(Increase) decrease in customer accounts receivable, net	383	(1,247)
(Increase) decrease in inventory	(12)	179
Increase in accounts payable	1,336	4,175
Increase in accrued wages payable	47	20
Increase in due to City of Long Beach	32	16
Increase in deferred revenues	182	193
Decrease in customer deposits	<u>(122)</u>	<u>(7)</u>
Total adjustments	<u>5,088</u>	<u>6,336</u>
Net cash provided by operating activities	<u>\$ 12,542</u>	<u>\$ 18,219</u>

See accompanying notes to financial statements.

CITY OF LONG BEACH GAS ENTERPRISE FUND

Notes to Financial Statements
September 30, 2006 and 2005

(1) Description of Gas Utility Operation and Summary of Significant Accounting Policies.

The following is a summary of the significant accounting policies of the City of Long Beach Gas Enterprise Fund (Gas Enterprise Fund).

(a) General

The Long Beach Gas Department was established in 1924 under a provision of the City Charter of the City of Long Beach (City). The Department's purpose is to regulate and control the use, sale, and distribution of natural gas by the City. These activities are accounted for in the City's Gas Enterprise Fund. To accomplish its stated purpose, the Gas Enterprise Fund purchases natural gas on the open market and then distributes it to approximately more than 140,000 commercial and residential customers. Natural gas rates are established by the City Council and are based on prevailing natural gas rates.

Natural gas is purchased by the City under long-term natural gas contracts from both local and out-of-state sources and is transported through Southern California Gas Company's pipelines on behalf of the City. Natural gas is then delivered to customers' homes and businesses via the City's 1,900 miles of gas pipeline infrastructure.

In October 1998, the Long Beach City Council approved the direct pass-through of gas commodity costs to customers allowing the City to fully recover this actual cost. The methodology is used by other gas utilities in California.

Effective October 1, 2005 the Long Beach Gas Department, the Southeast Resource Recovery Facility (SERRF) and the Long Beach Department of Oil Properties consolidated as one City department and became collectively known as Long Beach Gas & Oil.

(b) Reporting Entity

The Gas Enterprise Fund is part of the overall financial reporting entity of the City of Long Beach. As a proprietary fund of the City, the Gas Enterprise Fund's financial operations are included in the City's Comprehensive Annual Financial Report (CAFR). The City's CAFR may be obtained by contacting the City's Department of Financial Management at 333 W. Ocean Blvd., Long Beach, California 90802.

The Gas Enterprise Fund's revenues are collected through the City's customer billing system and its expenditures are paid through the City's disbursement system and are therefore subject to the City's internal control procedures.

CITY OF LONG BEACH GAS ENTERPRISE FUND

Notes to Financial Statements
September 30, 2006 and 2005

(c) Implementation of New Accounting Pronouncements

For the fiscal year ended September 30, 2006, the Gas Enterprise Fund adopted new accounting standards in order to conform to the following Governmental Accounting Standards Board (GASB) Statements:

GASB Statement No. 42 Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries establishes accounting and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This Statement also clarifies and establishes accounting requirements for insurance recoveries.

GASB Statement No. 46 Net Assets Restricted by Enabling Legislation addresses selected issues and amends GASB Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments. The Statement enhances the usefulness and comparability of net asset information and clarifies the meaning of legal enforceability. The Statement also specified accounting and financial reporting requirements for restricted net assets.

GASB Statement No. 47 Accounting for Termination Benefits provides accounting guidance for state and local governmental employers regarding benefits (such as early-retirement incentives and severance benefits) provided to employees that are terminated. The Statement requires recognition of the cost of involuntary termination benefits in the period in which a government becomes obligated to provide benefits to terminated employees.

(d) Measurement Focus and Basis of Accounting

The accompanying financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The Gas Enterprise Fund generally follows private sector standards of accounting and financial reporting issued on or before November 30, 1989 to the extent that such standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The City of Long Beach and, by consequence, the Gas Enterprise Fund also has the option of following subsequent private sector guidance for their business-type activities and enterprise funds, subject to the same limitation. The City and the Gas Enterprise Fund have elected not to follow subsequent private sector guidance.

Operating revenues consist of charges to customers for services provided; the costs of providing such services are considered to be operating expenses and all other revenues and expenses are considered to be nonoperative in nature. In keeping with City policy, unbilled service receivables are not recognized, as their effect on a year-to-year basis is not material. Revenues collected in advance such as customer deposits are recorded as deferred revenue, a liability account, for financial statement purposes. Revenue is recognized in the fiscal year in which the earnings process is complete or virtually complete.

CITY OF LONG BEACH GAS ENTERPRISE FUND

Notes to Financial Statements

September 30, 2006 and 2005

(e) *Pooled Cash, Cash Equivalents, and Other Investments*

In order to maximize investment return, the Gas Enterprise Fund pools its available general cash with that of the City. The City's cash management pool is used essentially as a demand deposit account by the participating units; therefore, the Gas Enterprise Fund has defined cash and cash equivalents as pooled cash and investments, including restricted pooled cash and investments. Investment decisions are made by the City Treasurer and approved by a general investment committee whose membership includes a member of the management group of the Gas Enterprise Fund.

Interest income and realized gains and losses arising from such pooled cash and investments are apportioned to each participating unit based on the relationship of an individual unit's respective daily cash balances to aggregated pooled cash and investments. The Gas Enterprise Fund's share of pooled cash and investments, as of September 30, 2006 and 2005, respectively, is stated at fair value. The value of each investment is based on independent third party pricing provided to the City of Long Beach (see note 2).

(f) *Inventories*

Inventories of supplies are stated at the lower of average cost or market determined on a first-in, first-out basis.

(g) *Restricted Assets*

Amounts designated for bond indenture requirements and refundable customer deposits are recorded as restricted assets. Related liabilities of the Gas Enterprise Fund are identified as amounts payable from restricted assets when such obligations are incurred. Proceeds from commercial paper issuance, which is reserved for capital projects, are likewise recorded as restricted assets.

(h) *Capital Assets*

The cost of additions to property, plant, and equipment, and replacement of retired property is capitalized. The cost of constructed assets includes labor, materials, interest, and allocated indirect expenses such as engineering, supervision, and construction and transportation equipment. The cost of minor replacements is regarded as a period cost and is expensed as incurred. Upon retirement or sale, the costs of the affected plant assets as well as the related accumulated depreciation are removed from the Gas Enterprise Fund's accounting records. Resulting gains or losses are recognized as a component of the change in net assets in the year of removal (see note 4).

CITY OF LONG BEACH GAS ENTERPRISE FUND

Notes to Financial Statements

September 30, 2006 and 2005

Depreciation of capital assets is provided using the straight-line method over the estimated service lives of the assets, as follows:

Building, structures and improvements	10 to 50 years
Transmission and distribution equipment	35 to 50 years
Other machinery and equipment	5 to 30 years

Contributed assets are recorded at fair market value when received.

(i) *Compensated Absences*

Vacation and sick leave benefits are paid through a Citywide Employee Benefits Internal Service Fund administered by the City of Long Beach. The cost of these benefits is recognized by the Gas Enterprise Fund through regular payroll burden charges from the Employee Benefits Internal Service Fund based on estimates of benefits earned for vacation pay and sick leave.

(j) *Pension Plan*

All full time Gas Enterprise Fund employees are members of the State of California Public Employees' Retirement System (CalPERS), a statewide plan available to most municipalities in the state. CalPERS act as a common investment and administrative agent for cities in California. The Gas Enterprise Fund is billed by the City for its share of pension costs based upon rates established by CalPERS for the City's general employees. No separate pension benefit obligation is calculated for the Gas Enterprise Fund; accordingly, no obligation is presented herein.

Contribution requirements of plan members and the City are established and maybe amended by CalPERS. Effective October 1, 2004, the City contribution payments to CalPERS Miscellaneous Plans are at 11.325% plus the employee rate of 9% and 8%. Miscellaneous employees paid 2% to CalPERS, that when added to the 6% paid by the City makes up the 8% employee rate, which was effective March 4, 2006. Management employees pay 1% of the 8% to CalPERS and the City pays 7%. Effective in fiscal year 2007, all miscellaneous employees in tier one and tier two will pay 2% of the 8%. Miscellaneous employees in tier three will pay 2% of the 7% employee rate.

In fiscal year 2006, the Gas Enterprise Fund's contributions to CalPERS were \$1,477,458, which were equal to the annual required contributions. Further information regarding the City's participation in PERS may be found in the City's Comprehensive Annual Financial Report (CAFR).

(k) *Use of Estimates*

The preparation of financial statements in conformity with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities as of the date of the financial statements. Actual results could differ from those estimates.

CITY OF LONG BEACH GAS ENTERPRISE FUND

Notes to Financial Statements
September 30, 2006 and 2005

(2) Pooled Cash and Cash Equivalents

As of September 30, 2006 and 2005, the Gas Enterprise Fund's pooled cash and cash equivalents amounted to \$14,905,000 and \$16,260,000, respectively, which represented 1.036% and 1.22%, respectively, of the City's cash management pool of \$1,438,522,000 and \$1,330,217,000, respectively. Cash and Investments as of September 30, 2006 are classified in the accompanying statements of net assets as follows (in thousands):

	(In thousands)	
	2006	2005
Pooled cash and cash equivalents	\$14,905	\$16,260
Non-pooled cash and investment	\$650	\$764
Total cash and investments	\$15,555	\$17,024

Investments Authorized by the California Government code and the City's Investment Policy

The table below identifies the investment types that are authorized for the City by the City's investment policy. The table also identifies certain provisions of the city's investment policy that address interest rate risk, credit risk, and concentration of credit risk. This table does not address debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the City, rather than the general provision of the California Government Code or the City's investment policy.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Bonds issued by the City	5 years *	30%	None
U.S. Treasury notes, bonds, or bills	5 years *	None	None
Registered state warrants or treasury notes or bonds of the State of California	5 years *	30%	None
Local Agency Bonds	5 years *	30%	None
Federal agency securities	5 years *	None	None
Banker's Acceptances	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years *	30%	10%
Time Certificates of Deposit	5 years *	100%	10%
Repurchase Agreements	90 days	100%	None
Reverse Repurchase Agreements	92 days	20%	None
Securities Lending Program	92 days	20%	None
Medium-Term Notes	5 years *	30%	10%
Money Market Funds	N/A	20%	10%
Local Agency Investment Fund (LAIF)	N/A	None	\$40 million per account
Asset-backed Securities	5 years	20%	None
Mortgage-backed Securities	5 years	20%	None

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* Maximum maturity of five (5) years unless a longer maturity is approved by the City Council, either specifically or as part of an investment program, at least three (3) months prior to purchase.

CITY OF LONG BEACH GAS ENTERPRISE FUND

Notes to Financial Statements

September 30, 2006 and 2005

Investments Authorized by Debt Agreements

Investment of debt proceeds held by bond trustee is governed by provisions of the debt agreements.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates that will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments, and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming closer to maturity evenly over time as necessary to provide cash flow and liquidity needed for operations.

The following schedule indicates the interest rate risk of the City's investments which includes the amount the Gas Enterprise Fund has invested with the City as of September 30, 2006 (in thousands):

Investment Type	2006		2005	
		Weighted Average Maturity (in years)		Weighted Average Maturity (in years)
Inter-Department Loan (Health Savrs)	\$3,297	12.600	-	0.000
Bonds Issued by the City	-	0.000	\$3,502	13.570
U.S. Treasury Notes	214,467	1.542	275,731	1.990
U.S. Treasury Bonds	-	-	10,513	0.030
Federal agency securities	1,042,876	1.572	858,461	1.310
Medium-Term Notes	33,464	1.609	95,404	0.840
Money Market Funds	-	0.000	34	0.000
Short-term Commercial Paper	132,731	0.013	-	0.000
Local Agency Investment Fund (LAIF)	2,920	0.003	94,981	0.490
Subtotal City Pool	\$1,429,755		\$1,338,626	
Cash on Hand	26,811		11,499	
Outstanding Checks	(18,044)		(19,908)	
Total City Pool	\$1,438,522		\$1,330,217	

The Gas Enterprise Fund's non-pooled investments consists of guaranteed investment contracts held by the bond trustee and amounted to \$650,000 and \$764,000 at September 30, 2006 and 2005, respectively. These guaranteed investment contracts do not have stated maturity dates.

Investments with Fair Values Highly Sensitive to Investment Risk

The City had no investments with values that were highly sensitive to investment risk as of September 30, 2006.

CITY OF LONG BEACH GAS ENTERPRISE FUND

Notes to Financial Statements

September 30, 2006 and 2005

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the California Government Code, the City's investment policy, and the actual rating as of year-end for each investment type (in thousands):

Rating as of Fiscal Year 2006							
City Pooled Investment	Minimum Legal Rating	Not Required To Be Rated	A-1+	A-1	AAA	AA-	Unrated
Inter-Department Loan (Health Savs)	\$3,297	N/A	\$ 3,297	\$ -	\$ -	\$ -	\$ -
U.S. Treasury Notes	214,467	N/A	214,467	-	-	-	-
Federal agency securities	1,042,876	N/A	-	-	1,042,876	-	-
Medium-Term Notes	33,464	N/A	-	-	28,445	5,019	-
Short-term Commercial Paper	132,731	A	-	75,773	56,958	-	-
Local Agency Investment Fund (LAIF)	2,920	N/A	2,920	-	-	-	-
Subtotal City Pool	1,429,755		220,684	75,773	56,958	1,071,321	5,019
Cash on Hand	26,811		-	-	-	-	26,811
Outstanding Checks	(18,044)		-	-	-	-	(18,044)
	<u>\$ 1,438,522</u>		<u>\$ 220,684</u>	<u>\$ 75,773</u>	<u>\$ 56,958</u>	<u>\$ 1,071,321</u>	<u>\$ 5,019</u>
							<u>\$ 8,767</u>
Rating as of Fiscal Year 2006							
Non-Pooled Investment	Minimum Legal Rating	Not Required To Be Rated	AAA	Aa	Aa	A	Unrated
Guaranteed Investment Contracts	\$ 650	N/A	\$ 650	\$ -	\$ -	\$ -	\$ -
Total held by Bond Trustees	<u>\$ 650</u>		<u>\$ 650</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Rating as of Fiscal Year 2005							
City Pooled Investment	Minimum Legal Rating	Not Required To Be Rated	AAA	Aa	A	Unrated	
Bonds issued by the City	\$ 3,502	N/A	\$ 3,502	\$ -	\$ -	\$ -	\$ -
U.S. Treasury Notes	275,731	N/A	275,731	-	-	-	-
U.S. Treasury Bonds	10,513	N/A	10,513	-	-	-	-
Federal agency securities	858,461	N/A	-	858,461	-	-	-
Medium-Term Notes	95,404	A	-	71,783	5,018	18,603	-
Money Market Funds	34	N/A	34	-	-	-	-
Local Agency Investment Fund (LAIF)	94,981	N/A	-	-	-	-	94,981
Subtotal City Pool	1,338,626		289,780	930,244	5,018	18,603	94,981
Cash on Hand	11,499		-	-	-	-	11,499
Outstanding Checks	(19,908)		-	-	-	-	(19,908)
	<u>\$ 1,330,217</u>		<u>\$ 289,780</u>	<u>\$ 930,244</u>	<u>\$ 5,018</u>	<u>\$ 18,603</u>	<u>\$ 86,572</u>
Rating as of Fiscal Year 2005							
Non-Pooled Investment	Minimum Legal Rating	Not Required To Be Rated	AAA	Aa	A	Unrated	
Guaranteed Investment Contracts	\$ 764	N/A	\$ 764	\$ -	\$ -	\$ -	\$ -
Total held by Bond Trustees	<u>\$ 764</u>		<u>\$ 764</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF LONG BEACH GAS ENTERPRISE FUND

Notes to Financial Statements
September 30, 2006 and 2005

Concentration of Credit Risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer that represents 5% or more of the City's total pooled investments are as follows (in thousands):

Issuer	City Pooled Investment Type	Reported Amount	
		2006	2005
FFCB Total	Federal Agency Securities	\$ 181,052	\$ 194,999
FHLB Total	Federal Agency Securities	241,246	204,151
FHLMC Total	Federal Agency Securities	266,937	216,462
FNMA Total	Federal Agency Securities	353,641	237,814
U.S. Treasuries	U.S. Treasury Notes & Bonds	214,467	-
Commercial Paper	Unsecured Corporate Debt	132,731	-

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits. The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

All securities owned by the City are deposited in trust for safekeeping with a custodial bank different from the City's primary bank except for one City issued bond and investment in the State's Local Agency Investment Fund.

As of September 30, 2006, the City reports cash deposits of \$26,811,475, less \$18,043,998 for checks outstanding.

CITY OF LONG BEACH GAS ENTERPRISE FUND

Notes to Financial Statements

September 30, 2006 and 2005

Investment in State Investment Pool

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code section 16429 under the oversight of the Treasurer of the State of California. The fair value of the City's investment in this pool is reported in the accompanying financial statements at amounts based upon the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are mortgage-backed securities, loans to certain state funds, securities with interest rates that vary according to changes in rates greater than a one-for-one basis, and structured basis.

GASB 31

GASB 31 requires that certain investments and external investment pools be reported at fair value. At September 30, 2006 and 2005, the effect of valuating the City's investments at fair value did not have material impact on its financial position.

Securities Lending

The City did not engage in any securities lending programs for the fiscal year ended September 30, 2006. However, from time to time, the City engages in limited securities-lending activities. These activities are governed by formal agreements with the City's contract bank. These agreements limit the nature and amount of the transactions, and provide for full collateralization of each transaction.

(3) Advances to Other General City Funds

The Gas Enterprise Fund has a long-term receivable from the City's Tidelands Enterprise Fund. Under terms of the agreement, the Gas Enterprise Fund is to receive annual payments in an amount necessary to cover the actual debt service requirements of the Gas Utility Revenue Bonds (see note 5).

CITY OF LONG BEACH GAS ENTERPRISE FUND

Notes to Financial Statements
September 30, 2006 and 2005

(4) Capital Assets

Activity in capital assets for the years ended September 30, 2006 and 2005 are as follows (in thousands):

	Fiscal Year 2006			
	Balance, October 1, 2005	Increase	Decrease	Balance, September 30, 2006
Capital assets, not being depreciated:				
Land	\$ 203	\$ -	\$ -	\$ 203
Construction in progress	3,680	5,196	(3,680)	5,196
Total capital assets not being depreciated	3,883	5,196	(3,680)	5,399
Capital assets being depreciated:				
Buildings and improvements	5,676	-	(34)	5,642
Distribution systems	113,876	8,840	(2,745)	119,971
Storage structures	318	-	-	318
Machinery and equipment	2,019	39	(118)	1,940
Total capital assets being depreciated	121,889	8,879	(2,897)	127,871
Less accumulated depreciation:				
Buildings and improvements	(3,202)	(132)	6	(3,328)
Distribution systems	(62,322)	(3,007)	2,351	(62,978)
Storage structures	(223)	(7)	-	(230)
Machinery and equipment	(1,464)	(96)	100	(1,460)
Total accumulated depreciation	(67,211)	(3,242)	2,457	(67,996)
Total capital assets being depreciated, net	54,678	5,637	(440)	59,875
Total	\$ 58,561	\$10,833	\$ (4,120)	\$ 65,274

CITY OF LONG BEACH GAS ENTERPRISE FUND

Notes to Financial Statements
September 30, 2006 and 2005

Fiscal Year 2005			
	Balance, October 1, 2004	Increase	Decrease
Capital assets, not being depreciated:			Balance, September 30, 2005
Land	\$ 203	\$ -	\$ -
Construction in progress	2,126	3,680	(2,126)
Total capital assets not being depreciated	<u>2,329</u>	<u>3,680</u>	<u>(2,126)</u>
			<u>3,883</u>
Capital assets being depreciated:			
Buildings and improvements	5,551	125	-
Distribution systems	110,637	3,914	(675)
Storage structures	318	-	-
Machinery and equipment	1,998	31	(10)
Total capital assets being depreciated	<u>118,504</u>	<u>4,070</u>	<u>(685)</u>
			<u>121,889</u>
Less accumulated depreciation:			
Buildings and improvements	(3,075)	(127)	-
Distribution systems	(60,134)	(2,713)	525
Storage structures	(217)	(6)	-
Machinery and equipment	(1,306)	(161)	3
Total accumulated depreciation	<u>(64,732)</u>	<u>(3,007)</u>	<u>528</u>
			<u>(67,211)</u>
Total capital assets being depreciated, net	<u>53,772</u>	<u>1,063</u>	<u>(157)</u>
			<u>54,678</u>
Total	<u>\$ 56,101</u>	<u>\$ 4,743</u>	<u>\$ (2,283)</u>
			<u>\$ 58,561</u>

CITY OF LONG BEACH GAS ENTERPRISE FUND

Notes to Financial Statements
September 30, 2006 and 2005

(5) Long-Term Debt

Long-term debt activities for the 2006 and 2005 fiscal years is as follows (in thousands):

	Fiscal Year 2006		
	Balance, October 1, 2005	Increase	Decrease
Long-term debt:			
2005 Commercial Paper	\$ -	\$ 7,755	\$ -
2005 Gas Utility Revenue Bonds	7,385	-	(885)
Current portion of long-term debt, due within one year	(885)	(905)	885
Unamortized discount	(35)	-	4
Unamortized issuance cost	(83)	-	7
Net long-term debt	<u>\$ 6,382</u>	<u>\$ 6,850</u>	<u>\$ 11</u>

	Fiscal Year 2005		
	Balance, October 1, 2004	Increase	Decrease
Long-term debt:			
1993 Gas Utility Revenue Bonds	\$ 8,215	\$ -	\$ (8,215)
2005 Gas Utility Revenue Bonds	-	7,675	(290)
Current portion of long-term debt, due within one year	(655)	(885)	655
Unamortized discount	(104)	(35)	104
Unamortized issuance cost	(83)	(83)	83
Net long-term debt	<u>\$ 7,373</u>	<u>\$ 6,672</u>	<u>\$ (7,663)</u>

In December 2005, the Gas Enterprise Fund initially issued \$3,945,000 of City's subordinate Gas Utility Revenue Commercial Paper Notes. As of September 30, 2006, \$7,755,000 in commercial paper notes has been issued and has had interest rates ranging from 3.01% to 3.60% since its issuance. The Commercial Paper Notes, Series A and B (taxable) was authorized in an aggregate principal amount not to exceed \$35,000,000. The program termination date is July 1, 2020 unless earlier terminated or extended in accordance with program terms. The Commercial Paper Notes shall not have maturities exceeding 270 days and shall not bear interest rate in excess of the lesser of (a) 12% per annum and (b) the maximum rate of interest permitted by law. The Gas Enterpriser Fund intends to refinance the Commercial Paper Notes on a long-term basis by renewal of the Commercial Paper Notes and future issuance of revenue bonds.

The Gas Utility Revenue Bond, Series 2005 bonds are payable through August 1, 2013 with a total debt service in the amount of \$7,196,010. The 2005 Bonds have interest rates ranging from 2.0% to 3.125%.

CITY OF LONG BEACH GAS ENTERPRISE FUND

Notes to Financial Statements
September 30, 2006 and 2005

Annual debt service requirements to maturity for these bonds are as follows:

	Annual debt service requirements		
	Principal	Interest	Total
Fiscal year ending September 30:			
2007	\$905,000	\$169,329	\$1,074,329
2008	925,000	149,192	1,074,192
2009	940,000	127,546	1,067,546
2010	970,000	103,719	1,073,719
2011	990,000	77,756	1,067,756
2012 - 2013	1,770,000	68,469	1,838,469
Totals	<u>\$ 6,500,000</u>	<u>\$ 696,010</u>	<u>\$ 7,196,010</u>

The bond agreement contains certain restrictive covenants. The Gas Enterprise Fund's management believes that the Gas Enterprise Fund has complied with these covenants during the year ended September 30, 2006 and 2005.

(6) Transfers to Other City Departments

Transfers consist of the following as of September 30, 2006 and 2005 (in thousands):

	2006	2005
Transfers to:		
General Fund	<u>\$ 17,001</u>	<u>\$ 15,497</u>
Total transfers	<u>\$ 17,001</u>	<u>\$ 15,497</u>

(7) Gas Rates

The City of Long Beach Gas Enterprise Fund passes along the actual cost of natural gas it provides to its customers.

The contract for full gas supply requirements was renewed with Coral Energy effective April 1, 2006 through March 31, 2009, which provides gas for a price that is competitive with surrounding utilities. This contract has a price ceiling cap of \$10.50 per decatherm, which offers protection against swings in market prices during the winter months of November through February. There is a price floor cap of \$5.50 per decatherm during all months of the year. Additionally, the price paid to local gas supplies is equal to the Southern California Gas Company's Core Procurement Price.

CITY OF LONG BEACH GAS ENTERPRISE FUND

Notes to Financial Statements
September 30, 2006 and 2005

(8) Commitments and Contingencies

The Gas Enterprise Fund is subject to claims and lawsuits arising from the normal course of business. Representatives of the City Attorney's Office routinely evaluate such claims. The management of the Gas Enterprise Fund may make provision for probable losses if deemed appropriate or upon advice of legal counsel. To the extent that such provision for damages is considered necessary, appropriate amounts are reflected in the accompanying financial statements. Based upon information obtained from the City Attorney with respect to the remaining cases, it is the opinion of management that any liability for unreserved claims and suits will not have a material impact on the financial statements of the Gas Enterprise Fund.



long beach transit comprehensive annual financial report

FOR THE YEAR ENDED JUNE 30, 2006 LONG BEACH, CA
A COMPONENT UNIT OF THE CITY OF LONG BEACH
PREPARED BY THE FINANCE DEPARTMENT
DEBORAH ELLIS, CHIEF FINANCIAL OFFICER

COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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introduction



INTRODUCTION



LONG BEACH

TRANSIT

P.O. Box 731

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August 25, 2006

To the Board of Directors of
Long Beach Public Transportation Company:

We are pleased to submit for your information and consideration the Comprehensive Annual Financial Report (CAFR) of Long Beach Public Transportation Company (Long Beach Transit or the Company) for fiscal year July 1, 2005 to June 30, 2006.

The CAFR has become the standard format used in presenting the results of the Company's annual financial operations for the fiscal year. We believe this report is presented in a manner designed to fairly disclose the financial position and results of operations of the Company as measured by its financial activities. To the best of our knowledge and belief the disclosures are accurate in all material respects.

The accompanying basic financial statements, supplemental schedules and statistical information are the representations of the Company's management which bears the responsibility for their accuracy and completeness. Our Independent Auditors' Report, prepared by KPMG LLP, is included along with other necessary disclosures to enable the reader to gain maximum understanding of the Company's financial activities.

The independent audit of the accompanying basic financial statements of Long Beach Transit was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the accompanying basic financial statements, but also on the audited agency's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the Long Beach Public Transportation Company's separately issued Single Audit Report.

Generally Accepted Accounting Principles (GAAP) require management to provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The Company's MD&A can be found immediately following the report of the independent auditors.

This CAFR is presented in three sections:

1. The **Introductory Section** contains this letter of transmittal, the 2005 Government Finance Officers Association's Certificate of Achievement for Excellence in Financial Reporting, the Company's organizational chart and a listing of the members of the Board of Directors and other principal officials.
2. The **Financial Section** presents the Independent Auditor's Report, the Company's MD&A, and the basic financial statements with accompanying notes.
3. The **Statistical Section** includes selected financial and demographic information generally presented on a multiyear basis for comparative fiscal periods.

Laurence W. Jackson, President and CEO

Robert W. Parkin, Chairman

Long Beach Public Transportation Company

REPORTING ENTITY

The Company is a nonprofit corporation, formed in 1963 with the purchase of the local transit system from a private carrier leaving the business.

Long Beach Transit is governed by a seven-member Board of Directors (Board) which provides broad policy and financial decisions, setting direction for management. The Mayor, with the approval of the Long Beach City Council, appoints residents of the community to the Board to serve overlapping four-year terms. In addition, two designees of the City Manager's Office may serve as ex officio members of the Board but do not have voting authority. The Board designates a Chief Executive Officer who is responsible for overseeing daily operations. Long Beach Transit's management is represented by the Chief Operating Officer, Chief Financial Officer and five Executive Directors heading Operations, Maintenance, Risk Management and Human Resources, Information Services, and Customer and Community Services. The Company's organizational chart is shown later in this introductory section.

The Company's reporting entity includes only transit operations and there is no other organization within the City of Long Beach providing a similar scope of public transportation service.

In accordance with GAAP, the Company is considered a component financial reporting unit of the City of Long Beach (City). As such, the Company's financial statements are included in the City's comprehensive annual financial report as a discretely presented component unit. Long Beach Transit has a separate legal status and has historically operated as an independently managed and operated nonprofit corporation, receiving no direct administrative or financial support from the City. For the present, there has been no expressed intent to alter the status of this financial reporting and administrative relationship.

SERVICES

Long Beach Transit's mission is "to provide public transit services that enhance and improve the quality of life for the residents of our community." The corporate business plan provides a framework for accomplishing this mission. The business plan serves as a foundation for the preparation of annual action plans and budgets which detail specific objectives to be achieved and the financial resources that will be provided to achieve them. The plan is updated each year to ensure goals are consistent with current and anticipated operating and economic conditions.

Long Beach Transit is a full service public transit system, providing a wide range of transit services, including:

- Fixed route bus service
- Shuttle service (Passport and Pine Ave. Link)
- Circulator Service (Tour D'Art)
- Demand responsive paratransit service (Dial-A-Lift)
- Water taxi service (AquaBus and AquaLink)
- Charter and community special service

Fixed Route Bus Service

The Company provides fixed route bus service to a 98 square mile area which includes the cities of Long Beach, Lakewood and Signal Hill; and portions of Bellflower, Carson, Cerritos, Hawaiian Gardens, Norwalk, Paramount and Seal Beach. This service covers 39 routes, requiring 229 buses, including the shuttle and cultural loop services discussed below. During fiscal 2006, Long Beach Transit carried 27.1 million customers.

The Transit Mall, located in downtown Long Beach, is the focal point of the fixed route system as well as Metro Blue Line rail service running between Long Beach and downtown Los Angeles. The Mall provides special features such as exclusive bus lanes and traffic control equipment, special bus stop improvements, passenger shelters equipped with graphic displays, electronic monitors displaying schedule information and a central customer service center. There is also a Bikestation located directly on the Transit Mall.

Of the 39 fixed routes operated by the Company, 33 radiate from the Transit Mall. This location is a major transfer point not only for the Company's routes but for the Metro Blue Line Light Rail System as well as other bus services provided by Torrance Transit, the Los Angeles Department of Transportation (LADOT), Los Angeles County Metropolitan Transportation Authority (LACMTA), and Orange County Transportation Authority (OCTA).

All of Long Beach Transit's fixed-route service vehicles are low-floor wheelchair accessible. These coaches are maintained and dispatched from two facilities. Approximately 60% of the vehicles are stored at the central administrative, operating and maintenance facility located at 1963 Anaheim Street in Long Beach. The remaining coaches are assigned to a satellite maintenance facility at 6860 Cherry Street in North Long Beach. Besides the regular coaches, the Company owns a fleet of automobiles used for supervisory and administrative functions and various maintenance vehicles for emergency road services and bus stop support.

Long Beach Transit maintains neighborhood bus shelters, benches, and standard bus stops providing customer convenience and comfort. There are over 2000 stops throughout the system and each year the Company ensures the stops are well-maintained and meet cleanliness standards.

Shuttle Service (Passport and Pine Ave. Link)

There are two shuttles, the Passport and Pine Ave. Link, providing circulator service as often as every eight minutes throughout the growing downtown Long Beach area via four routes. Service is provided by 28 low-floor minibuses. These vehicles are stored and maintained at the main administrative facility on Anaheim Street.

The red Passport shuttles deliver service designed to provide easy access to the Convention Center, major hotels, restaurants, Catalina Landing, the Queen Mary, Belmont Shore and California State University, Long Beach (CSULB). During 2006, the Passport carried 2.7 million passengers.

Long Beach Public Transportation Company

The City of Long Beach recently completed a major redevelopment project - a new downtown waterfront entertainment complex adjacent to the Aquarium of the Pacific and the Convention Center. The site offers a wide variety of family-oriented attractions, retail stores and restaurants. To complement the new development, Long Beach Transit provides the Pine Ave. Link service to shuttle people directly from these waterfront attractions up to the Pine Ave. district which also contains numerous restaurants, shops and theaters.

Circulator Service (Tour D'Art)

The Tour D'Art service takes visitors and residents to downtown cultural sites while also providing a local circulator for downtown riders. The service is provided by two shuttle buses displaying graphics reproduced from works of art at the Museum of Latin American Art. On this fare-free shuttle, customers can hop on and off the bus and see as many sites as desired. Besides the Museum of Latin American Art, the Tour D'Art serves the Long Beach Performing Arts Center and many antique shops and art galleries.

Demand Responsive Paratransit Service (Dial-A-Lift)

Long Beach Transit offers a paratransit service for persons with disabilities. This curb to curb service operates on a subscription or call-in basis and is provided by a private contractor. All vehicles are owned by the Company, but stored, maintained and dispatched by the contractor.

The Dial-A-Lift service is supplied by a local taxi company using a fleet of 18 mini-van taxis. The contractor supplements Dial-A-Lift rides with its ordinary taxi service on an as-needed basis eliminating the need for additional dedicated vans. This results in lower overall costs. There were approximately 65,800 boardings on Dial-A-Lift in 2006.

Water Taxi Service (AquaBus and AquaLink)

The Aquarium of the Pacific, Convention Center and the new Pike development with restaurants, retail and theatres, continue to attract many visitors to the City's downtown waterfront. As a complement to the Passport and Pine Ave. Link shuttles which serve the area, the Company also operates water taxi service in Queensway Bay and along the City's coastline.

There are two AquaBus boats that provide links to the Queen Mary, Aquarium and Shoreline Village. These boats, which carry up to 49 passengers, tie directly with the downtown shuttle buses and parking facilities, allowing visitors to see Long Beach's many attractions without having to get in their car. For passengers wanting to travel further down the coast, the AquaLink, a 75-seat catamaran, provides service from the Queen Mary area to Alamitos Bay Landing.

The service is provided by a private contractor. The vessels are owned by Long Beach Transit, but stored and maintained at the contractor's docking facilities. This service runs daily during the summer months and then reverts to weekend service for the remainder of the year.

Charter and Community Special Service

Charter service is provided to various community groups upon request and vehicle availability. This service provides these groups with a cost-effective solution for transporting their members to programs and special events. Each year, the Company also supports the Toyota Grand Prix of Long Beach and other large, special events by providing supplemental service where needed.

Long Beach Transit provides express bus service to major museum and garden attractions in Los Angeles and Orange Counties. Due to its popularity, service was expanded in 2006 to include 28 different cultural destinations. Tickets can be purchased in advance for the service, which runs from June through September. The Museum Express offers residents who would not ordinarily ride the bus an opportunity to try transit and is particularly beneficial to our senior and transit dependent customers who can rely on the service to access attractions they could not travel to on their own.

ACCOMPLISHMENTS

Long Beach Transit's mission is "to provide public transit services that enhance and improve the quality of life for the residents of our community". To accomplish this mission, the Company has undertaken a wide variety of initiatives to continue improving the overall quality, effectiveness and efficiency of transit services.

Fleet Improvements

The Company continued to focus on its goal of maintaining a modern, efficient transit fleet. During fiscal years 2005 and 2006, Long Beach Transit received 47 new hybrid-electric coaches to replace vehicles that had reached their useful life. Another 15 hybrid-electric coaches have been ordered with delivery expected in the summer of 2007. After extensive research and analysis, Long Beach Transit determined this type of alternative fuel vehicle offered the most advantages, including emission levels lower than those of compressed natural gas engines (CNG). Long Beach Transit is the first transit system in the nation to use production model hybrid gasoline-electric buses in service. The Company exceeds all federal and state emission regulations and is a national leader in reducing fleet emissions.

The Company continued the practice of mid-life cosmetic upgrading of buses at six years of age, with 18 coaches receiving new windows, upholstery replacement where needed, repainting and other improvements to make them look new. In addition, all windows received a new sealant to prevent spotting which can occur as a result of frequent washes.

Technological Innovation

The Company's global satellite positioning system, Transmart, allows continuous tracking of the exact location of every vehicle in our fleet. Besides generating critical data for operations, it also provides real-time bus arrival information for our customers. This technology was recently expanded to the downtown transit mall. New information displays, using flat panel LCD monitors, show actual arrival times to assist customers with their trip planning.

In addition to the information kiosks located at the downtown transit mall, the Company is also deploying variable message signs to its busiest stops throughout the City. These solar-powered LED signs provide real-time schedule information with next bus arrival times. Various messages can also be displayed informing passengers of detours and delays. Variable message signs are currently installed at 15 locations with another 15 stops under construction.

Besides providing up-to-date schedule information at our bus stops, Long Beach Transit became one of the first systems in the nation to enable customers to access real-time information from any home or office computer. Transmart's Webwatch, located on the Company's website, allows customers to view actual bus arrival times and provides trip planning assistance.

Long Beach Public Transportation Company

Facility Upgrades

A new Transit Information Center is currently being designed for the downtown transit mall. This facility would be larger than the existing visitor center and located on a corner of the mall that is highly visible and easily accessed by pedestrian traffic. Route and schedule displays, transit pass sales, and other facilities for coach operators and customers are some of the planned features of this new center. There would also be space for agencies such as the Convention and Visitors Bureau to provide information about the region.

New State regulations and the receipt of 47 gasoline hybrid-electric coaches require the Company to replace its existing underground diesel and fuel tanks with those that are environmentally upgraded and can handle increased amounts of gasoline storage. In addition, the tanks will be wired and fluid levels will be monitored by a new fuel and mileage system. The project is expected to cost \$1.8 million and is estimated for completion in December 2006.

Other Achievements

To improve the level and quality of information available to the public about transit services in Long Beach and the southeast region of Los Angeles, Long Beach Transit, through a grant awarded by the Los Angeles County Metropolitan Transportation Authority, developed a new regional transit guide. This transit guide is a one-stop source of information about the 19 transit providers in the region and was direct-mailed to over 170,000 households in the area. The guide layout is very user-friendly and encourages greater travel on southeast Los Angeles County transit systems.

During 2006, Long Beach Transit began a program to improve the mobility and access to our transit system by senior citizens. This senior outreach program involved partnering with several senior organizations and housing complexes to assist the Company in marketing orientation field trips to its members. The purpose of the trips is to introduce older adults to the Company's transit system and show participants first hand that public transit can be a convenient and accessible way to travel. With the number of Americans over 65 doubling in the next 20 years, these types of programs are necessary to assist seniors in meeting their daily travel needs.

For the past two years, Long Beach Transit has worked diligently to develop the Southern California Regional Transit Training Consortium (SCRTTC) to address transit training needs in the region. The Consortium is a partnership of community colleges and transit agencies for the purpose of developing affordable and accessible mechanical training courses to enhance the transit industry's challenge of maintaining new technologies and recruitment of potential future personnel. The SCRTTC was recently awarded over \$1 million dollars by the Federal government allowing the Consortium to actively begin preparing curriculum and coordinating agency participation.

On July 1, 2005, the Company implemented its first fare change in ten years. The base cash fare was left unchanged and a day pass was introduced to replace the local transfer. Customers have been very receptive to the day pass which offers one day of unlimited riding on all Long Beach Transit routes. It provides customers with the convenience of being able to board the bus numerous times throughout the day without worrying about paying a fare each time.

Perhaps the most important accomplishment is the continuing high level of customer satisfaction with the quality of services provided by Long Beach Transit, as summarized in Exhibit 11 in the Statistical Section and discussed in further detail in the Management's Discussion and Analysis section of this document.

KEY PERFORMANCE RESULTS

Performance Statistics

One of the several methods used to monitor performance is through key indicators that track service quality, efficiency and productivity. The results for fiscal year 2006 are on page 40. The cost per vehicle service hour increased 10% to \$83.12. This is due to three main factors. First, the labor agreement between the Amalgamated Transit Union Local 1589 and the Company, which expired in September 2004, was renewed. The settlement agreement provided a lump sum payment and an immediate 5% increase in wages to cover the first two years of the contract, including a wage increase retroactive to 2004. As a result, union wages increased almost \$1 million over the prior year. Second, fuel prices continued their steep climb, increasing 34% in one year adding an additional \$1.4 million in expenses. Lastly, both the workers compensation and casual and liability insurance programs experienced higher payouts and reserve increases totaling over \$700,000.

With the arrival of the new hybrid-electric buses and the retirement of older coaches, the miles between roadcalls jumped 25% in 2006. The average, 9,014 miles, is the highest ever for the Company and indicative of improved service reliability for our customers. While the number of preventative accidents rose 19% in fiscal year 2006, contributing to increases in casualty and liability expenses as noted above, new safety and training programs have recently been implemented to address this increase.

Despite these challenges, a recent analysis conducted by the Los Angeles County Metropolitan Transportation Authority indicated that on a cost-per-vehicle service hour basis, Long Beach Transit continues to be among the lowest cost major public transit operators in Los Angeles County.

Community Evaluation

Long Beach Transit also tracks the degree of customer satisfaction with the quality of services provided. An independent research firm is engaged to randomly sample customers and non-riders and measure perceptions of service quality. Results for 2006 and prior years are shown on page 41.

Overall, 90% of riders continue to view Long Beach Transit service as good or excellent. The information provided by this survey is a key source for the development of the Company's annual business plan. Ratings and customer comments are analyzed in detail to ensure Long Beach Transit is responsive to customer and community concerns and ideas.

FACTORS AFFECTING FINANCIAL CONDITION

Local Economy

Sky-rocketing increases in fuel prices continue to affect the way Long Beach Transit does business. Diesel and gasoline costs were at all-time highs. Per gallon diesel prices for June 2006 were 32% higher than in June 2005 and over a two-year period, diesel prices have risen 87%. The price per gallon of gasoline rose 42% in the last eight months of fiscal year 2006. Although fuel prices have recently begun to drop from record highs, it does not appear they will return to the levels seen in 2005.

Long Beach Public Transportation Company

When assessing the City of Long Beach's economic future, the Los Angeles Economic Development Corporation is forecasting a moderate growth in jobs and sales tax revenue for next year. The Long Beach area is expected to hit a new employment high for the year, with growth coming from health care, hospitality, and international trade. Hotel occupancy rates and air travel passenger loads continue to rise due to continued increases in Long Beach's tourism market. However, the potential shut down of Boeing's C-17 program in 2009 could affect as many as 10,000 workers and leave the City without any aerospace manufacturing. Even considering this, job growth is expected to rise 1.3% over the next year.

The majority of Long Beach Transit's subsidy revenue is sales tax based, so changes in retail sales affect subsidy levels. There has been a significant amount of new residential development in Downtown Long Beach. The attraction of new residents is expected to increase taxable sales. When combining this with favorable projected tourism numbers for next year, a 6% growth in tax revenues is projected for the immediate area. The Company will closely monitor the economy and rising fuel prices and will adjust service levels as needed to remain within its operating budget.

Financial Policies

The Company procures the majority of all capital assets through annual grants awarded through the Federal Transit Administration. The Federal grants are allocated by region under Section 5307 and 5309 of the Safe, Accountable, Flexible, and Efficient Transportation Equity Act – A Legacy for Users (SAFETEA-LU) of 2005. The Company is eligible to receive funds based on a formula allocation and discretionary money for specific projects, such as buses. The Company currently has no long-term debt and no immediate plans to issue debt to fund future capital acquisitions.

Daily operations are financed by fare revenue, annual sales tax subsidies received from State and County programs, and miscellaneous other revenue such as income from advertising on Company vehicles. In July 2005, the Company increased fares for the first time in ten years. As a result, fare revenue increased 13% during fiscal year 2006. The amount of sales tax subsidies received each year are based on a regional formula comprised of fares, revenue miles and passengers.

Accounting System

Internal Control Structure

In evaluating and developing the accounting system, Federal Transit Administration (FTA) and GAAP accounting methods are applied to achieve an adequate system of internal accounting controls which ensures assets are protected against loss from unauthorized use or disposition and the data used to prepare financial statements are timely and reliable. These controls are designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance is to ensure the cost of the control does not exceed the benefit received. It also recognizes the evaluation of costs and benefits require estimates and judgments by management. We believe the Company's internal accounting controls adequately safeguard assets and provide reasonable assurance financial transactions are properly recorded.

Basis of Accounting

Long Beach Transit is a single enterprise proprietary fund using the accrual method of accounting. Under this method, revenues are recorded when earned and expenses are recorded when liabilities are incurred.

Government grants for operating assistance and the acquisition of capital assets are not formally recognized in the accounts until the grant becomes a valid receivable as a result of the Company complying with appropriate grant requirements. Operating assistance grants are included in non-operating revenues in the year in which the grant is applicable and the related reimbursable expenditure is incurred. It is the Company's policy to record capital grants as an addition to capital assets and net assets as the related expenditures are incurred.

Cash Management

Idle cash during the year was invested with the State Treasurer's Local Agency Investment Fund (LAIF) and overnight repurchase agreements. All investments are governed by an investment policy adopted by the Board of Directors. The policy is in accordance with the California Government Code and all other applicable federal, state and local laws, as well as using prudent money management. Other than LAIF, the Company is authorized to participate in obligations of the federal government and its agencies, commercial paper, bankers' acceptances, repurchase agreements, certificates of deposit and mutual funds issued by diversified management companies.

All deposits are covered by federal insurance or collateralized under the California Government Code requiring the financial institution to pledge government securities as collateral with a market value of at least 110% of deposits.

Risk Management

Long Beach Transit is self-insured for each occurrence of worker's compensation and public liability and property damage claimed up to \$3 million and \$1 million, respectively. Claims in excess of \$3 million for worker's compensation and \$1 million for public liability and property damage are covered under policies in force with an independent insurer up to \$25 million for worker's compensation and \$10 million for public liability and property damage. There were no changes in the self-insurance threshold for both programs during 2006. The amount of settlements for both programs has not exceeded the insurance coverage limits for the last three fiscal years.

An independent claims manager estimates losses and recommends reserve levels with losses recognized on an accrual basis. Cash and investments are maintained to fully fund the estimated liabilities. Additional information on Long Beach Transit's risk management activity can be found on page 22 in note (6) of the notes to the accompanying basic financial statements.

Pension Benefits

The Company sponsors two single employer defined benefit pension plans; one for contract employees and the other for salaried employees. Each year, an independent actuary calculates the amount of annual contribution that Long Beach Transit must make to the pension plans to ensure the plans will be able to fully meet its obligations to retired employees on a timely basis.

As a matter of policy, Long Beach Transit fully funds each year's annual required contribution to the Pension Plans as determined by the actuary. As a result of the Company's conservative funding policy, at July 1, 2006, the present value of Plan assets exceeded the present value of all accrued benefits for both Plans. When taking into consideration future projected benefits, the funding status is 77% and 82% for the Contract Plan and Salaried Plan, respectively. The remaining unfunded future liability is being systematically funded over five years as part of the annual required contribution calculated by the actuary.

Long Beach Public Transportation Company

The financial statements for the Contract and Salaried Plans are available under separate cover. There is also additional information regarding the pension plans in this CAFR which can be found on page 26 in note (10) of the notes to the accompanying basic financial statements.

INNOVATION AND RECOGNITION

For the 15th straight year, the GFOA of the United States and Canada awarded a Certificate of Achievement for excellence in Financial Reporting to Long Beach Transit for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2005.

A Certificate of Achievement is valid for a period of one year only. In order to receive the award, a governmental unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report in compliance with the GFOA policies, procedures and program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

Long Beach Transit also received an award for Outstanding Financial Reporting from the California Society of Municipal Finance Officers (CSMFO) for the fiscal year ended June 30, 2005. The Company submitted the CAFR to CSMFO for recognition beginning in 2001 and has now received the award for the fifth straight year.

The Federal Transit Administration (FTA) has selected Long Beach Transit for special recognition. The Company's Title VI report, which analyzes routes, schedules, vehicle assignments and demographic trends to ensure service is provided without regard to race, color, or national origin, has been selected as a "best practice" for transit agencies and will be featured on FTA's regional website.

ACKNOWLEDGMENTS

We wish to acknowledge the participation and professional contribution of KPMG LLP in providing technical assistance when needed. In addition, we wish to recognize those Finance and Administrative staff members who contributed their time and efforts in preparing this document. Special thanks to Jacqueline Dricker, Office Administrator.



President and
Chief Executive Officer



Executive Vice President and
Chief Operating Officer



Senior Vice President and
Chief Financial Officer

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Long Beach
Public Transportation Company,
California

For its Comprehensive Annual

Financial Report

for the Fiscal Year Ended

June 30, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Carla E. Fudge

President

Jeffrey R. Enen

Executive Director

California Society of Municipal Finance Officers

Certificate of Award

Outstanding Financial Reporting 2004-05

Presented to the

Long Beach Transit

*This certificate is issued in recognition of meeting professional standards and criteria in reporting
which reflect a high level of quality in the annual financial statements
and in the underlying accounting system from which the reports were prepared.*

February 24, 2006

William J. Thomas

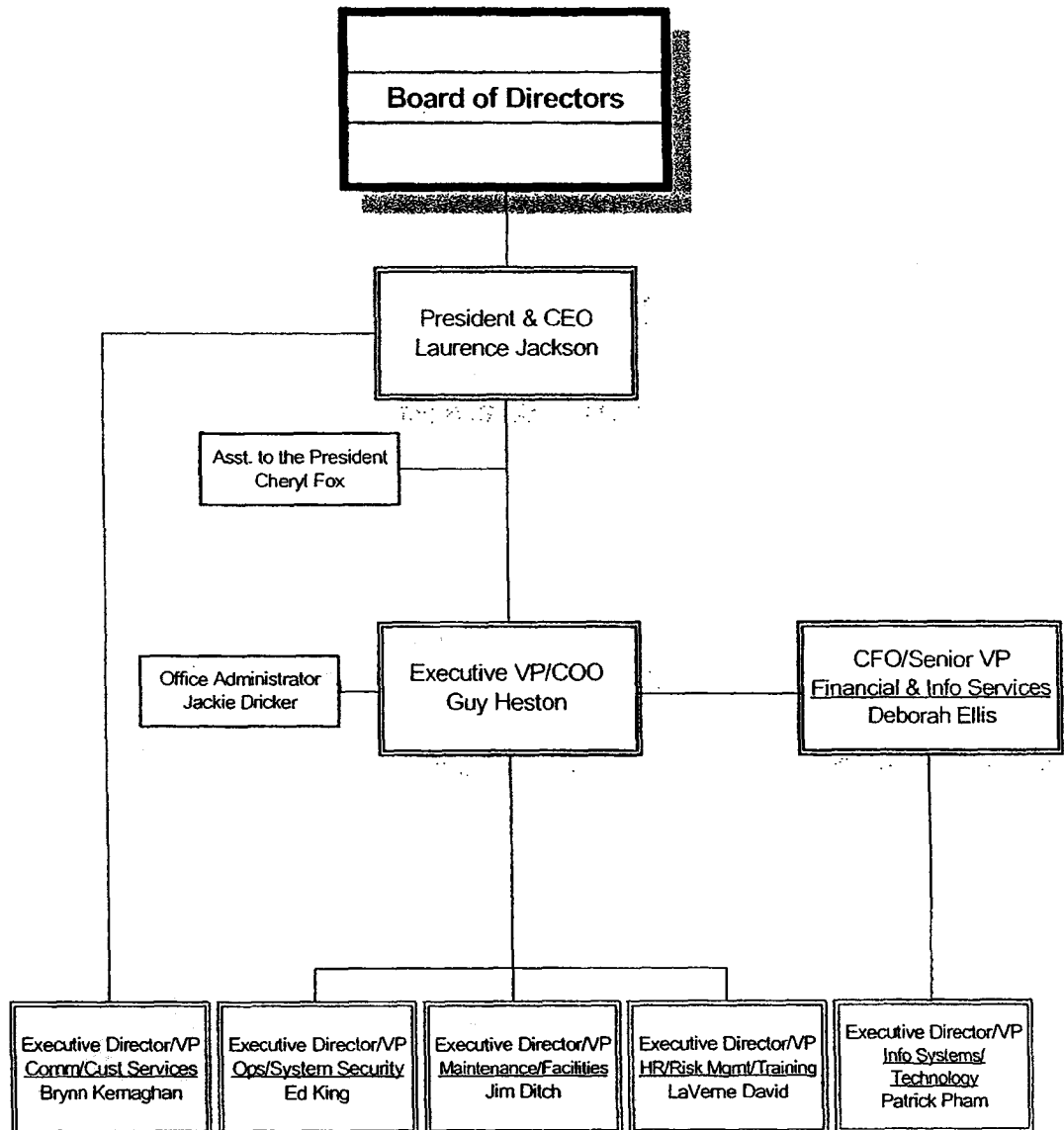
Bill Thomas, Chair
Professional & Technical Standards Committee

Dedicated to Excellence in Municipal Financial Management



Long Beach Public Transportation Company

ORGANIZATION CHART



Long Beach Public Transportation Company

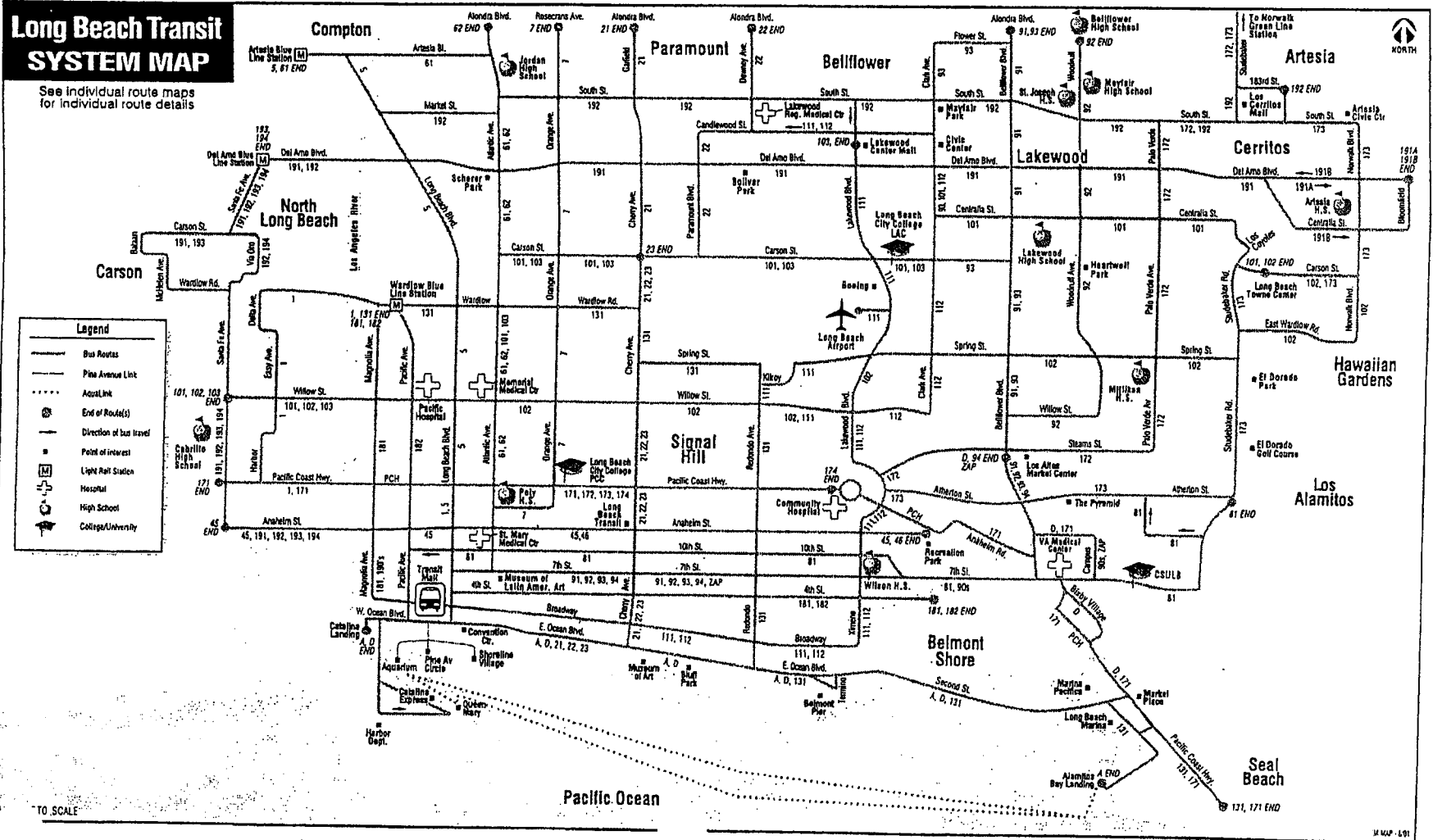
Board of Directors

Robert W. Parkin	Chairman of the Board
Terry Fiskin	Vice Chairman
Renee B. Simon	Secretary – Treasurer
Mark Curtis	Vice Secretary – Treasurer
Yolanda F. Benavidez	Director
Brigida A. Knauer	Director
Dr. James P. Norman, Jr.	Director
Christine F. Shippey	Ex Officio Member, City of Long Beach
Christine F. Andersen	Ex Officio Member, City of Long Beach

Management

Laurence W. Jackson	President & Chief Executive Officer
Guy Heston	Executive Vice President & Chief Operating Officer
Deborah Ellis	Senior Vice President & Chief Financial Officer Financial & Information Systems
Ed King	Executive Director, VP Operations & System Security
Jim Ditch	Executive Director, VP Maintenance & Facilities
LaVerne David	Executive Director, VP Risk Management, Training & Human Resources
Patrick Pham	Executive Director, VP Information Systems & Technology
Brynn Kernaghan	Executive Director, VP Community & Customer Services

Long Beach Public Transportation Company



Long Beach Public Transportation Company

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financial





KPMG LLP
Suite 2000
355 South Grand Avenue
Los Angeles, CA 90071-1568

Independent Auditors' Report

The Board of Directors of
Long Beach Public Transportation Company:

We have audited the accompanying financial statements of the Long Beach Public Transportation Company (Company), a component unit of the City of Long Beach, California, as of and for the years ended June 30, 2006 and 2005, as listed in the table of contents. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described more fully in note 1, the financial statements referred to above include only the financial activities of the Company and are not intended to present fairly the financial position and results of operations of the City of Long Beach, California in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of June 30, 2006 and 2005, and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 8, 2006 on our consideration of the Company's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 to 9 and the pension supplementary information on pages 28 and 29 are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the basic financial statements taken as a whole. The introductory section and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we express no opinion on them.

KPMG LLP

September 8, 2006

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MANAGEMENT'S DISCUSSION and ANALYSIS

As management of Long Beach Public Transportation Company (Long Beach Transit or the Company), we offer readers of Long Beach Transit's financial statements this narrative overview and analysis of the financial activities of the Company for the fiscal years ended June 30, 2006 and 2005. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages i-x of this report.

FINANCIAL HIGHLIGHTS

- Long Beach Transit's assets exceeded its liabilities at June 30, 2006 by \$87.2 million (net assets). Of this amount, \$3.5 million (unrestricted net assets) may be used to meet the Company's ongoing obligations arising from providing transportation service to the community.
- The Company implemented a fare increase at the beginning of the fiscal year resulting in passenger fares rising 13% over FY 2005.
- Operating expenses before depreciation rose 7% over the prior year as fuel costs increased \$1.5 million or 35%. In addition, the Company incurred wage expenses related to the settlement of a new five year labor agreement.
- Net assets decreased \$4.3 million or 5% as annual depreciation expenses were greater than the amount of capital asset acquisitions during the year. All capital procurements are funded by federal, state, and local grants and are debt free.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to Long Beach Transit's financial statements and notes to the financial statements.

The statements of net assets present information on all of Long Beach Transit's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Long Beach Transit is improving or deteriorating.

The statements of revenues, expenses, and changes in net assets present information showing how the Company's net assets changed for the two most recent fiscal years. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

The statements of cash flows present information on the Company's cash receipts, cash payments, and net changes in cash (and cash equivalents) for the two most recent fiscal years. Generally accepted accounting principles for governmental units require that cash flows be classified into one of four categories:

- Cash flows from operating activities
- Cash flows from noncapital financing activities
- Cash flows from capital and related financing activities
- Cash flows from investing activities.

The Company's financial statements can be found on pages 10-14 of this report.

Long Beach Public Transportation Company

Management's Discussion and Analysis, continued

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 15-31 of this report.

FINANCIAL STATEMENT ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of the Company's financial position. In the case of Long Beach Transit, assets exceeded liabilities by \$87.2 million at the close of fiscal year 2006.

Long Beach Public Transportation Company's Condensed Summary of Net Assets

	2006	2005	2004
Current assets	\$ 27,081,859	\$ 25,647,604	\$ 24,407,271
Other noncurrent assets	14,054,152	11,884,506	12,607,881
Capital assets, net	83,588,365	87,934,270	72,060,726
Total assets	124,724,376	125,466,380	109,075,878
Current liabilities	24,886,650	23,346,976	22,117,725
Noncurrent liabilities	12,644,581	10,580,354	11,292,647
Total liabilities	37,531,231	33,927,330	33,410,372
Net assets:			
Invested in capital assets	83,588,365	87,934,270	72,060,726
Restricted	113,048	166,914	166,914
Unrestricted	3,491,732	3,437,866	3,437,866
Total net assets	\$ 87,193,145	\$ 91,539,050	\$ 75,665,506

Almost all of Long Beach Transit's net assets (96% for fiscal years 2006 and 2005 and 95% for 2004) reflect its investment in capital assets (e.g., fleet, buildings, passenger facilities, shop equipment). The Company uses these capital assets to provide transportation service to the community; consequently, these assets are not available for future spending. All of Long Beach Transit's capital assets were procured with federal, state, and local grant funds. The remaining balance of unrestricted net assets (\$3.5 million in 2006 and \$3.4 million in 2004 and 2005) may be used to meet the Company's ongoing obligations arising from providing transportation service to the community.

In fiscal year 2006, Long Beach Transit's net assets decreased by \$4.3 million. This is due to the annual depreciation expense exceeding capital purchases by \$4.3 million. Long Beach Transit spent \$12 million for capital assets which included installation of new fareboxes on all coaches, four new hybrid-electric buses, six Dial-A-Lift vehicles, procurement of additional real-time message signs at major bus stops, and routine replacement of shop, office and EDP equipment.

For fiscal year 2005, the Company's net assets increased by almost \$16 million due to capital purchases exceeding annual depreciation expense by \$15.9 million. Long Beach Transit spent \$31.1 million for capital assets which included procurement of 43 new buses, installation of bus security cameras and other facility security enhancements, new passenger information kiosks in the transit mall and final payment on an advanced communication system.

Long Beach Public Transportation Company

Management's Discussion and Analysis, continued

Long Beach Public Transportation Company's Condensed Summary of Changes in Net Assets

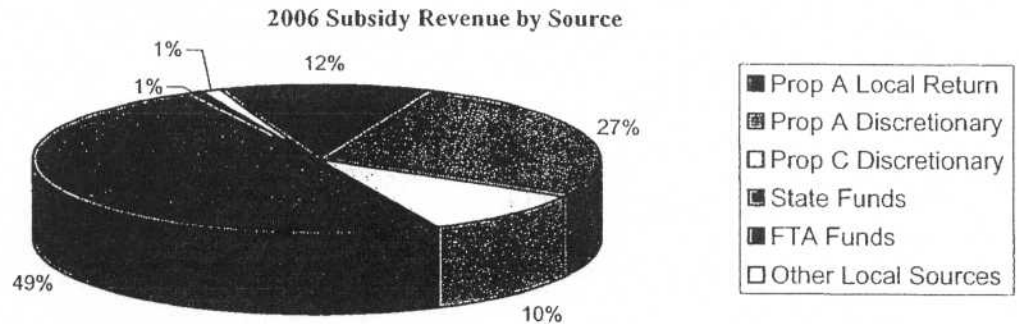
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Operating revenues:			
Passenger fares and special events	\$ 14,580,725	\$ 12,900,077	\$ 12,768,183
Advertising	724,158	743,750	906,250
Other	<u>28,316</u>	<u>17,558</u>	<u>30,861</u>
Total operating revenues	<u>15,333,199</u>	<u>13,661,385</u>	<u>13,705,294</u>
Non-operating revenues:			
Subsidies	42,078,890	40,444,529	40,615,870
Interest	<u>1,107,116</u>	<u>595,400</u>	<u>363,813</u>
Total non-operating revenues	<u>43,186,006</u>	<u>41,039,929</u>	<u>40,979,683</u>
Total revenues	<u>58,519,205</u>	<u>54,701,314</u>	<u>54,684,977</u>
Expenses:			
Transportation	29,156,285	27,366,019	27,723,568
Maintenance	16,800,999	15,781,778	14,154,855
Administration	12,561,921	11,553,517	12,806,554
Depreciation	<u>16,316,882</u>	<u>15,209,043</u>	<u>13,673,096</u>
Total expenses	<u>74,836,087</u>	<u>69,910,357</u>	<u>68,358,073</u>
Change before capital grants	(16,316,882)	(15,209,043)	(13,673,096)
Capital grants	<u>11,970,977</u>	<u>31,082,587</u>	<u>7,765,223</u>
Change in net assets	<u>\$ (4,345,905)</u>	<u>\$ 15,873,544</u>	<u>\$ (5,907,873)</u>

Operating revenues. Effective July 1, 2005, the Company implemented a fare increase which resulted in a 13% rise in passenger fares for fixed route services. Since fare revenue comprises 95% of operating revenues, total operating revenues also increased by 12%. Due to a soft advertising market, the Company's advertising revenue dropped in 2005 by 18% and held steady in fiscal year 2006. However, recent ad sales are on the rise and the Company will receive more advertising revenue in fiscal year 2007.

Non-operating revenues. Subsidies, which comprise 72% of total revenues both operating and non-operating, increased, \$1.6 million, or 4%, in 2006. This increase is a direct result of the higher expenses during the year from rising fuel prices and labor contract settlement costs. Even though the Company received more fare revenue in 2006, additional Proposition A Discretionary funds and State Transit Assistance funds were required to meet the Company's operational requirements. In 2005, subsidy revenue remained relatively flat. However, there was an increase in Federal preventative maintenance funds to account for the \$1.1 million loss in Proposition A and C funds no longer distributed by the Los Angeles County Metropolitan Transportation Authority (LACMTA). In 2005, investment returns increased after a two year decline. This trend continued in 2006, with investment income growing 86%, just over \$500,000.

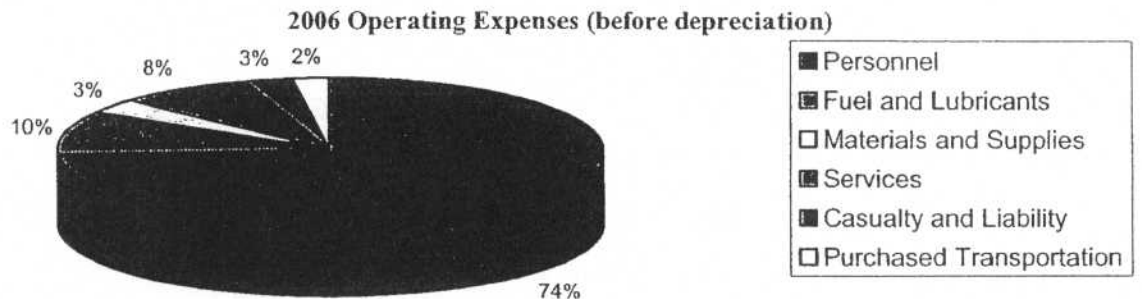
Long Beach Public Transportation Company

Management's Discussion and Analysis, continued



Expenses. Operating expenses, before depreciation, increased 7% in 2006. The Company experienced a 35%, \$1.5 million, increase in the cost of fuel. Over the last three years, fuel has risen 135%, and now comprises 10% of the Company's projected operating expenses. In addition, a new labor agreement was reached during the year resulting in a 5% wage increase in 2006 and a lump sum settlement payment. Workers compensation costs also rose 30% after declining in fiscal year 2005, primarily due to the high cost of older claims before the enactment of workers compensation state legislation intended to assist employers in reducing these costs.

While operating expenses remained flat in 2005, there were double-digit increases to health care and fuel, but these increases were offset by savings in both the workers compensation and casualty and liability insurance programs, with reserves dropping 31%. In addition, while labor negotiations continued, there were no annual raises for contract employees except for step increases dictated by seniority.



Depreciation expense increased 7% for 2006. Although capital asset acquisitions declined almost \$20 million during the year, the receipt of 47 new buses during 2005 and early 2006 substantially increased annual depreciation costs. Depreciation receives no direct capital or operating funding. In 2005, depreciation expense increased 11% which was also attributed to the receipt of the new buses.

Management's Discussion and Analysis, continued

CAPITAL ASSETS

Long Beach Transit's investment in capital assets as of June 30, 2006, amounted to \$83.6 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, fleet, communication and farebox systems, machinery and equipment, and passenger facilities. All assets have been purchased with federal, state or local grants awarded to the Company, and Long Beach Transit has never issued any debt to fund the procurement of capital assets.

The total net decrease in the Company's investment in capital assets for the current fiscal year was 4.9%. Long Beach Transit had \$12 million in new capital contributions during the year, a decrease of \$19.1 million when compared to 2005. The Company took delivery of 4 new coaches in 2006, totaling \$2.8 million as well as a new farebox system costing \$3.8 million. As noted above, all assets are purchased with grants, the majority coming from federal funding. Total grant awards will vary each year as Long Beach Transit is eligible for a formula percentage of the County's federal funding, plus one-time grants available for specific projects, such as bus replacement. Grant requirements allow, on average, three years to expend these funds. As of June 30, 2006, the Company had \$36.1 million in grant funds designated for capital procurements. This is a \$1.2 million decrease from the available balance at the end of fiscal year 2005.

Significant capital asset acquisitions during 2006 included the following:

- The procurement of 4 full-size hybrid-electric coaches to replace fully depreciated diesel vehicles at a cost of \$2.1 million.
- Installation of a new farebox system on all coaches costing \$3.8 million.
- Routine replacement of engines, transmissions, tires, and shop and office equipment at a cost of \$2.4 million.
- Placement of real-time information message signs at major bus stops allowing customers to see next bus arrival times. The Company spent \$258,000 during 2006 and has plans to spend another \$250,000 in fiscal 2007.
- Procurement of six new Dial-A-Lift vehicles totaling \$251,000.

Long Beach Public Transportation Company's Capital Assets (net of depreciation)

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Land	\$ 5,525,000	\$ 5,525,000	\$ 5,525,000
Buildings and improvements	14,413,089	15,400,577	16,463,984
Fleet	50,460,451	57,020,001	38,557,681
Communications systems	2,460,954	3,647,786	4,454,446
Fare collection system	4,205,666	372,611	434,146
Office, shop and garage equipment	1,985,529	1,892,012	2,257,364
Passenger facilities	3,095,423	3,063,029	1,657,942
Construction in progress	<u>1,442,253</u>	<u>1,013,254</u>	<u>2,710,163</u>
Total assets, net of depreciation	<u>\$ 83,588,365</u>	<u>\$ 87,934,270</u>	<u>\$ 72,060,726</u>

Long Beach Public Transportation Company

Management's Discussion and Analysis, continued

Long Beach Transit's investment in capital assets as of June 30, 2005, amounted to \$87.9 million (net of accumulated depreciation). Long Beach Transit had \$31.1 million in new capital contributions during the year, an increase of \$23.3 million when compared to 2004. As of June 30, 2005, the Company had \$37.3 million in grant funds designated for capital procurements. This is a \$3.1 million increase from the available balance at the end of fiscal year 2004.

Significant capital asset acquisitions during 2005 included the following:

- The procurement of 43 full-size hybrid-electric coaches to replace fully depreciated diesel vehicles at a cost of \$25 million.
- Routine replacement of engines, transmissions, tires, and shop and office equipment at a cost of \$2.3 million.
- Mid-life cosmetic upgrade for 16 coaches. Each coach received new windows, upholstery replacement where needed, re-painting and other improvements to make them look new. The rest of the fleet was detailed and received new window sealant and seats. Expenditures for both programs totaled \$750,000.
- The installation of a new bus security camera system on just over 50% of the fleet at a cost of \$670,000.

Additional information on Long Beach Transit's capital assets can be found in note 8 in the notes to the accompanying financial statements beginning on page 24 of this report.

ECONOMIC FACTORS and NEXT YEAR'S FINANCIAL PLAN

The economic environment in which Long Beach Transit operates continues to present management with major challenges in sustaining the level and quality of transit services. The existing state and federal funding environment is not expected to result in significant additional operating funds for transit in the foreseeable future. Subsidy revenues which account for more than 70% of operating funds are forecasted to increase by only 2% in 2007.

Even with a fare increase that took effect on July 1, 2005, the Company's ridership remained virtually unchanged during 2006, increasing less than 1%. The increase in fares produced \$1.7 million in additional revenue. The Company expects ridership to remain stable in 2007 resulting in limited increases in passenger revenues for the next year.

In preparing Long Beach Transit's financial plan for 2007, management forecast a 6.8% rise in expenses over the prior year. There are two major reasons for the proposed increase. The Company continues the process of restoring manpower and service levels that were reduced last year due to financial uncertainties caused by state-imposed regulations regarding operator meal and rest periods. This issue was resolved during the settlement of the recent labor agreement, and the Company is preparing to add 5,000 additional service hours on the heaviest-used routes during the next year.

The effect of rising fuel prices is causing significant financial concerns for transit systems all across the nation, and in particular California where prices are even higher because of stringent air quality regulations. Long Beach Transit has experienced a 135% increase in fuel costs over the last three years. The Company's 2007 financial plan includes another 6% rise above last year's numbers. Long Beach Transit has historically managed resources and lived within its means allowing the Company to weather the fuel increases over the next year. However, the Company cannot indefinitely absorb the higher fuel prices.

Management's Discussion and Analysis, continued

Discussions are currently underway with the Los Angeles County Metropolitan Transportation Authority on the necessity of providing subsidy assistance to ensure existing service levels can be sustained in the years ahead.

The final financial plan approved in May 2006 for fiscal year 2007 totals \$62.6 million. In addition to the items discussed above, there is a 2.5% wage increase for all employees and minor increases for health care premiums.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Long Beach Public Transportation Company's finances for all those with an interest in the Company's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Chief Financial Officer, Long Beach Transit, P.O. Box 731, Long Beach, California, 90801.

Long Beach Public Transportation Company

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FINANCIAL STATEMENTS

Long Beach Public Transportation Company

Statements of Net Assets June 30, 2006 and 2005

	Assets	
	2006	2005
Current assets:		
Cash and investments (note 2)	\$ 14,477,606	\$ 10,322,516
Accounts receivable (note 4)	1,466,954	2,361,891
Materials and supplies inventory	941,539	898,128
Prepaid expenses	179,786	143,333
Restricted and designated assets:		
Cash and investments (notes 2 and 5)	1,690,982	1,635,846
Accounts receivable (note 5)	5,033,885	7,278,414
Cash and investments designated for insurance claims (notes 2, 5 and 6)	3,291,107	3,007,476
Total current assets	27,081,859	25,647,604
Noncurrent assets:		
Cash and investments - contingency reserve (notes 2 and 5)	2,000,000	2,000,000
Restricted assets:		
Cash and investments (notes 2 and 5)	12,054,152	9,884,506
Capital Assets (note 8):		
Land	5,525,000	5,525,000
Buildings and improvements	31,870,886	31,232,051
Fleet	95,180,179	103,685,785
Communications systems	6,578,076	6,186,329
Fare collection system	5,054,251	1,914,465
Office, shop and garage equipment	15,383,525	14,547,026
Passenger facilities	6,268,397	5,070,017
Construction-in-progress	1,442,253	1,013,254
Less accumulated depreciation	(83,714,202)	(81,239,657)
Total net capital assets	83,588,365	87,934,270
Total noncurrent assets	97,642,517	99,818,776
Total assets	\$ 124,724,376	\$ 125,466,380

Long Beach Public Transportation Company

Statements of Net Assets, Continued June 30, 2006 and 2005

Liabilities and Net Assets

	2006	2005
Current liabilities:		
Accounts payable	\$ 1,652,160	\$ 1,034,023
Payroll accrued expenses	488,549	1,201,014
Compensated absence payable (note 12)	1,864,041	1,798,872
Retiree health care benefits (note 12)	62,413	42,922
Subsidy deferral (note 9)	12,067,134	11,268,941
Current liabilities payable from restricted or designated assets:		
Deferred revenue (note 5)	5,461,246	4,993,729
Estimated liability for insurance claims (note 6)	3,291,107	3,007,475
Total current liabilities	<u>24,886,650</u>	<u>23,346,976</u>
Noncurrent liabilities:		
Liabilities payable from restricted or designated assets:		
Deferred revenue (note 5)	11,899,001	9,884,504
Retiree health care benefits (note 12)	745,580	695,850
Total noncurrent liabilities	<u>12,644,581</u>	<u>10,580,354</u>
Total liabilities	<u>37,531,231</u>	<u>33,927,330</u>
Net Assets:		
Invested in capital assets	83,588,365	87,934,270
Restricted	113,048	166,914
Unrestricted	3,491,732	3,437,866
Total net assets	<u>\$ 87,193,145</u>	<u>\$ 91,539,050</u>

The notes to the financial statements are an integral part of these statements.

Long Beach Public Transportation Company

Statements of Revenues, Expenses and Changes in Net Assets Years Ended June 30, 2006 and 2005

	2006	2005
Operating revenues:		
Passenger fares	\$ 14,542,379	\$ 12,814,406
Special events	38,346	85,671
Advertising	724,158	743,750
Other revenue	28,316	17,558
Total operating revenues	15,333,199	13,661,385
Operating expenses:		
Transportation	29,156,285	27,366,019
Maintenance	16,800,999	15,781,778
Administration	12,561,921	11,553,517
Depreciation (note 8)	16,316,882	15,209,043
Total operating expenses	74,836,087	69,910,357
Operating loss	(59,502,888)	(56,248,972)
Nonoperating income:		
Subsidies (note 3)	42,078,890	40,444,529
Interest income	1,107,116	595,400
Total nonoperating income	43,186,006	41,039,929
Change in net assets before capital grants	\$ (16,316,882)	\$ (15,209,043)
Capital grants	11,970,977	31,082,587
Change in net assets	(4,345,905)	15,873,544
Total net assets, July 1	91,539,050	75,665,506
Total net assets, June 30	\$ 87,193,145	\$ 91,539,050

The notes to the financial statements are an integral part of these statements.

Long Beach Public Transportation Company

Statements of Cash Flows Years Ended June 30, 2006 and 2005

	2006	2005
Cash flows from operating activities:		
Cash received from customers	\$ 15,197,532	\$ 13,943,329
Cash paid to employees for services	(28,330,635)	(28,918,397)
Cash paid to other suppliers of goods or services	(29,908,287)	(27,229,668)
Net cash used in operating activities	(43,041,390)	(42,204,736)
Cash flows provided by noncapital financing activities:		
Operating subsidies received	44,066,769	43,495,869
Cash flows from capital and related financing activities:		
Proceeds from sale of capital assets	381,503	100,322
Purchase of capital assets	(11,970,978)	(31,082,587)
Capital grant contributions received	16,307,539	26,924,290
Net cash provided by (used in) capital and related financing activities	4,718,064	(4,057,975)
Cash flows provided by investing activities - interest received on cash and investments	920,060	511,820
Net increase (decrease) in cash and cash equivalents	6,663,503	(2,255,022)
Cash and cash equivalents, July 1	26,850,344	29,105,366
Cash and cash equivalents, June 30 (note 2)	<u>\$ 33,513,847</u>	<u>\$ 26,850,344</u>

Statements of Cash Flows, Continued
Years Ended June 30, 2006 and 2005

Reconciliation of Operating Loss to Net Cash Used in Operating Activities	2006	2005
Operating loss	\$ (59,502,888)	\$ (56,248,972)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	16,316,882	15,209,043
Decrease (increase) in accounts receivable from operations	(82,936)	223,425
Increase in materials and supplies inventories	(43,411)	(97,277)
Decrease (increase) in prepaid expenses	(36,453)	46,267
Increase in accounts payable	618,137	24,755
Increase (decrease) in accrued payroll expenses and compensated absences payable	(578,075)	6,707
Increase (decrease) in estimated liability for insurance claims	283,632	(1,380,936)
Increase (decrease) in other deferred revenue	(16,278)	12,252
Total adjustments	16,461,498	14,044,236
Net cash used in operating activities	\$ (43,041,390)	\$ (42,204,736)

The notes to the financial statements are an integral part of these statements.

Long Beach Public Transportation Company

Notes to Financial Statements June 30, 2006 and 2005

(1) Summary of Significant Accounting Policies

Reporting Entity

The Long Beach Public Transportation Company (Long Beach Transit or Company) is a nonprofit corporation organized to provide public transportation services to the citizens of Long Beach, California. The Company is governed by a seven-member Board of Directors appointed by the Mayor with the approval of the Long Beach City Council to serve four-year terms. In turn, the Board Members appoint a Chief Executive Officer who is responsible for overseeing the Company's daily operations. The Company is responsible for the preparation of its own annual financial plan.

In accordance with U.S. generally accepted accounting principles (GAAP), the Company is considered a component financial reporting unit of the City of Long Beach (City), California. As such, the Company's financial statements are included in the City's comprehensive annual financial report as a discretely presented component unit. Long Beach Transit has a separate legal status and has historically operated as an independently managed and operated nonprofit corporation, receiving no direct administrative or financial support from the City. For the present, there has been no expressed intent to alter the status of this financial reporting and administrative relationship.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The accompanying financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

In accordance with Government Accounting Standards Board (GASB) Statement No. 20, the Company applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements; Financial Accounting Standards Board (FASB) statements and interpretations, Accounting Principles Board (APB) opinions, and Accounting Research Bulletins (ARBs) of the Committee on Accounting Procedures.

The Company distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing goods and services and producing and delivering goods in connection with the Company's principal ongoing operations. The principal operating revenues of the Company include passenger fares charged for transportation service to the community and advertising fees. Operating expenses include the cost of transportation services, maintenance of capital assets and facilities, administrative expenses and depreciation on capital assets. All other revenues and expenses are reported as nonoperating revenues and expenses.

Notes to Financial Statements, Continued

The Company adopted GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, effective July 1, 2004.

Material and Supplies Inventories

Inventories are valued at cost on a first-in, first-out basis as applied on a moving-average-cost method, or market, whichever is lower.

Capital Assets

Capital assets, which include property, plant and equipment, are defined by the Company as assets with initial project values exceeding \$5,000, with individual federally funded items costing more than \$500 and having an estimated useful life of more than one year. The Federal Transit Administration (FTA) excludes the bus tire lease from this requirement as it is depreciated over a twelve month period. Capital assets are valued at historical cost. Depreciation is provided using the straight-line method, with no allowance for salvage values. Donated capital assets are recorded at estimated fair market at the date of donation. The Company did not receive any donated capital assets during fiscal years 2006 and 2005.

Estimated useful lives of the Company's capital assets are as follows:

Buildings and improvements	25 years
Buses and vessels	12 years
Fare boxes	10 years
Smaller coaches	7 years
Furniture, equipment and passenger facilities	5 years
Service trucks	4 years
EDP equipment	3 years
Bus components	3 years
Service autos	3 years
Bus tires	1 year

Financial Plan

The Company adopts an annual financial plan for management information purposes only. Accordingly, financial statements presenting comparison of budgeted and actual results are not included.

Government Grants

Grants, with the exception of Proposition A local share (noted below) for operating assistance, for the acquisition of equipment or other capital outlay are not formally recognized in the accounts until the grant becomes a valid receivable as a result of the Company complying with appropriate grant requirements.

Operating assistance grants are included in nonoperating revenues in the year in which a related reimbursable expenditure is incurred or in deferred revenue for use in the subsequent fiscal year.

The Company's policy is to report revenues from capital grants separately after nonoperating revenues as the related expenditures are incurred. Assets acquired with capital grant funds are included in capital assets. Capital monies received prior to an expenditure being incurred are recorded as deferred revenue.

Long Beach Public Transportation Company

Notes to Financial Statements, Continued

The City allocates a portion of its Proposition A local share funding to the Company in accordance with an agreement between the Company, the City and the Los Angeles County Metropolitan Transportation Authority (LACMTA) (see notes 3 and 5). The Company records such Proposition A funds received and due from the City as deferred grant revenue until used for operating assistance and/or capital expenditures. Those Proposition A funds used for operating assistance are included in nonoperating subsidies income and those funds used for capital expenditures are included in net assets.

Statements of Cash Flows

For purposes of the statements of cash flows, the Company considers all of its cash deposits and investments, including restricted and designated cash and investments, to be cash and cash equivalents. Monies invested with the State Treasurer's Local Agency Investment Fund may have maturities longer than 90 days; however, the Fund functions as a demand deposit account. Therefore, the Company considers such investments to be cash equivalents. There were no significant non-cash capital and related financing activities in 2006 and 2005.

Reclassifications

Certain reclassifications have been made to amounts reported in 2005 in order to conform with the current year's presentation. Such reclassifications had no effect on previously reported change in net assets.

(2) Cash and Investments

Cash and investments are classified in the accompanying financial statements as follows as of June 30:

	2006	2005
Current unrestricted cash and investments	\$ 14,477,606	\$ 10,322,516
Current restricted and designated cash and investments	1,690,982	1,635,846
Current cash and investments designated for insurance claims	3,291,107	3,007,476
Noncurrent restricted cash and investments	14,054,152	11,884,506
Total cash and investments	<u>\$ 33,513,847</u>	<u>\$ 26,850,344</u>

Cash and investments consist of the following as of June 30:

	2006	2005
Cash on hand	\$ 75,641	\$ 90,872
Deposits with financial institutions	479,553	1,545,876
Investments	32,958,653	25,213,596
Total cash and cash deposits	<u>\$ 33,513,847</u>	<u>\$ 26,850,344</u>

Long Beach Public Transportation Company

Notes to Financial Statements, Continued

Investments Authorized by the California Government Code and Long Beach Public Transportation Company's Investment Policy

The table below identifies the investment types that are authorized for Long Beach Transit by the Company's investment policy. The table also identifies certain provisions of the Company's investment policy that address interest rate risk, credit risk, and concentration of credit risk. Although the Company is authorized to participate in the investments listed below, at June 30, 2006, the Company elected to have all but \$500,000 of its investments with the Local Agency Investment Fund (LAIF). The remaining \$500,000 was in an overnight repurchase agreement.

	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Percentage In One Issuer</u>
Local Agency Investment Fund (LAIF)	N/A	None	None
Negotiable Certificates of Deposit	5 years	30%	None
Commercial Paper	270 days	10%	10%
Money Market Mutual Funds	N/A	None	None
Bankers Acceptances	180 days	40%	10%
Repurchase Agreements	90 days	None	None
Reverse Repurchase Agreements	92 days	20%	None
Mutual Funds	N/A	15%	10%
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Obligations	5 years	None	None
Medium-Term Notes	5 years	30%	None
Mortgage Pass-Through Securities	5 years	20%	None
Local Agency Bonds	5 years	10%	None

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The State Investment Pool (LAIF) manages its exposure to interest rate risk by purchasing a combination of shorter term and longer term investments and timing cash flows from maturities so a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needs of its participants. As of year end, the weighted average maturity of investments contained in the LAIF investment pool is approximately 133 days.

Information about the sensitivity of fair values of the Company's investments to market interest rate fluctuations is provided by the following table that shows the maturity date of each investment at June 20, 2006 and 2005, respectively.

	<u>2006</u>	<u>Maturity Date</u>
State Investment Pool (LAIF)	\$ 32,458,653	133 days average maturity
Repurchase Agreement (Overnight Sweep Account)	<u>500,000</u>	July 3, 2006
Total	<u>\$ 32,958,653</u>	

Long Beach Public Transportation Company

Notes to Financial Statements, Continued

	<u>2005</u>	<u>Maturity Date</u>
State Investment Pool (LAIF)	\$ 24,713,596	180 days average maturity
Repurchase Agreement		
(Overnight Sweep Account)	<u>500,000</u>	July 1, 2005
Total	<u>\$ 25,213,596</u>	

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. LAIF does not have a rating provided by a nationally recognized statistical rating organization.

Concentration of Credit Risk

The investment policy of the Company contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There are no investments in any one issuer that represents 5% or more of total Company investments.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the Company's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure government deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools, such as LAIF.

Notes to Financial Statements, Continued

(3) Operating Subsidies

Subsidies from the following sources were earned during the years ended June 30:

	2006	2005
Proposition A, County of Los Angeles	\$ 11,333,677	\$ 7,956,295
TDA and STA, State of California	20,655,260	18,236,348
Proposition C, County of Los Angeles	4,145,171	5,296,405
Proposition A Allocation, City of Long Beach	5,014,805	5,740,953
Preventative Maintenance, Federal/State	302,184	2,533,066
Other local sources	627,793	681,462
Total	\$ 42,078,890	\$ 40,444,529

The voters of the County of Los Angeles approved Proposition A in November 1980 and Proposition C in November 1990. These voter approved sales tax initiatives each provide a 1/2% sales tax within the County to be used for mass transit and transportation purposes. A substantial portion of these funds are distributed to the various County transit operators by LACMTA on both a formula and discretionary basis.

Additionally, each city in Los Angeles County receives a formula allocation of certain Proposition A revenues. The City of Long Beach in turn allocates a portion of its Proposition A local share funding to the Company in accordance with an agreement between the Company, the City and LACMTA. The portion of the local Proposition A funds used for operating assistance is included above.

The State of California's Transportation Development (TDA) Act of 1971 designated a portion of County sales tax receipts to finance transit operations and development. This financing is made available to eligible transit operators within the County through allocations from the Local Transportation Fund of Los Angeles County and administered by LACMTA. State Transportation Assistance Funds (STA) are generated from a portion of the statewide sales tax and are disbursed to transit agencies based on a formula allocation by LACMTA.

In accordance with the Federal Transit Administration (FTA) regulations, the Company is allowed to use federal grant monies for operating preventative maintenance expenditures. These funds are shown as subsidy income in the Company's accompanying financial statements. The FTA funds 80% of the costs with the remaining 20% matched by Proposition C funds.

Other local monies are derived from the City's AB2766 Program sponsored by the South Coast Air Quality Management District (SCAQMD), Job Access Reverse Commute funds (JARC) awarded through LACMTA and reimbursement for service hours supplied to seven surrounding cities.

Long Beach Public Transportation Company

Notes to Financial Statements, Continued

(4) Accounts Receivable

Unrestricted accounts receivable were comprised of the following at June 30:

	2006	2005
Subsidies	\$ 745,581	\$ 1,910,509
Interest	370,356	183,301
Trade	351,017	268,081
Total	<u>\$ 1,466,954</u>	<u>\$ 2,361,891</u>

Accounts are written off when determined to be uncollectible. In the opinion of management, all significant accounts receivable at June 30, 2006 and 2005 are fully collectible.

(5) Restricted and Designated Assets and Deferred Revenues

At June 30, 2006 and 2005, the balance of restricted and designated assets and deferred revenue accounts were as follows:

Restricted and Designated Assets

	2006	2005
Current cash and investments:		
Proposition A funds, City of Long Beach	\$ 1,685,270	\$ 1,613,856
Other	5,712	21,990
Cash and investments designated for		
Insurance claims	3,291,107	3,007,476
Total current cash and investments	<u>4,982,089</u>	<u>4,643,322</u>
Noncurrent cash and investments:		
Board mandated contingency reserve	2,000,000	2,000,000
Capital grant funds	12,054,152	9,884,506
Total noncurrent cash and investments	<u>14,054,152</u>	<u>11,884,506</u>
Total restricted and designated cash and investments:	<u>\$ 19,036,241</u>	<u>\$ 16,527,828</u>
Accounts receivable:		
Proposition A funds due from City	\$ 3,770,264	\$ 3,311,226
Capital grants receivable	1,263,621	3,967,188
Total restricted and designated accounts receivable	<u>\$ 5,033,885</u>	<u>\$ 7,278,414</u>

Notes to Financial Statements, Continued

	<u>Deferred Revenues</u>	
	<u>2006</u>	<u>2005</u>
Current deferred revenue:		
Proposition A funds, City of Long Beach	\$ 5,455,534	4,971,739
Other	5,712	21,990
Total current deferred revenue	<u>5,461,246</u>	<u>4,993,729</u>
Noncurrent deferred revenue:		
Capital grant funds	11,215,814	9,408,442
Revenue financing	683,187	476,062
Total non current deferred revenue	<u>11,889,001</u>	<u>9,884,504</u>
Total deferred revenue	<u>\$ 17,350,247</u>	<u>14,878,233</u>

The Company maintains a \$2 million contingency reserve mandated by the Board of Directors to meet unexpected cash shortfalls.

Proposition A funds from the City are local share Proposition A funds received by the City from LACMTA and are allocated to the Company in accordance with the agreements described in note 3 in the notes to the accompanying financial statements. Such monies are for the Company's use as operating assistance and/or to finance capital expenditures. The unused portion of Proposition A funds received from and due from the City is included in deferred grant revenue.

Capital grants receivable are grant funds earned and shown as capital grant contributions through purchase or construction of qualifying capital assets, but not yet received. Capital grant funds included in restricted and designated cash and investments and deferred grant revenue are funds the Company has received in advance for capital asset acquisition or construction but which have not been expended at the date of the statements of net assets.

Revenue financing funds are proceeds from the sale of assets originally purchased with capital grant contributions which will be used for future asset acquisitions. Other deferred revenue was received from a maintenance consortium group of which Long Beach Transit is coordinating. This group is developing a regional training program for maintenance employees, and the money collected from its members will be used to pay administrative development costs.

(6) Estimated Liability for Insurance Claims

Under its insurance programs, the Company retains the risk for each occurrence of worker's compensation and public liability and property damage claimed up to \$3 million and \$1 million, respectively. Claims in excess of \$3 million for worker's compensation and \$1 million for public liability and property damage are covered under policies in force with an independent insurer up to \$25 million for worker's compensation and \$10 million for public liability and property damage. Individual claim settlements for both workers' compensation and public liability and property damage did not reach insurance coverage minimums in fiscal years 2006, 2005, and 2004.

The level of risk retention is dictated by the insurance market and the rates available to the Company. The Company weighs the increased premium costs against the risk level attempting to minimize overall program expenses. Risk retention levels for both worker's compensation and public liability and property damage did not change during fiscal year 2006. However, in fiscal year 2005, the Company's risk retention level for worker's compensation increased from \$2 million to \$3 million due to rising premiums in the market.

Long Beach Public Transportation Company

Notes to Financial Statements, Continued

The Company's policy is to estimate and recognize losses on the accrual basis based on the report of the Company's independent claims manager and to maintain designated cash and investments to fund the estimated liabilities. Liability may also be accrued if it is reasonable to suspect claims may arise from an incident that has occurred, but has yet to be reported to our independent claims manager.

The changes in estimated liabilities for reported claims are as follows:

	Public Liability and Property Damage	Worker's Compensation	Total
Estimated liabilities at July 1, 2003	\$ 1,402,784	\$ 2,248,311	\$ 3,651,095
Reserves:			
New claims	626,785	269,517	896,302
Adjustments to existing claims	819,248	3,011,983	3,831,231
Payouts	<u>(1,160,076)</u>	<u>(2,830,141)</u>	<u>(3,990,217)</u>
Estimated liabilities at June 30, 2004	1,688,741	2,699,670	4,388,411
Reserves:			
New claims	586,259	463,924	1,050,183
Adjustments to existing claims	165,669	1,547,357	1,713,026
Payouts	<u>(1,647,088)</u>	<u>(2,497,057)</u>	<u>(4,144,145)</u>
Estimated liabilities at June 30, 2005	793,581	2,213,894	3,007,475
Reserves:			
New claims	848,697	746,064	1,594,761
Adjustments to existing claims	1,895,450	51,916	1,947,366
Payouts	<u>(2,542,672)</u>	<u>(715,823)</u>	<u>(3,258,495)</u>
Estimated liabilities at June 30, 2006	<u>\$ 995,056</u>	<u>\$ 2,296,051</u>	<u>\$ 3,291,107</u>

(7) Deferred Compensation

The Company offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan is administered by an independent contractor. The Plan is available to all Company employees and permits them to defer a portion of their salary until future years. Plan assets consist of money market and mutual funds and are purchased based on elections made by the Company's employees. The deferred compensation is not available to employees or beneficiaries until termination, retirement, death or unforeseeable emergency.

Existing assets in the Plan are maintained in a qualified custodial account. The Custodian holds the Plan's assets for the exclusive benefit of participants and beneficiaries. The Plan's assets are not the legal property of the Company and are not subject to the claims of the Company's general creditors nor can they be used by the Company for any purpose other than the payment of benefits to employees participating in the Plan or their designated beneficiaries. Therefore, deferred compensation funds are not shown on the Company's Statements of Net Assets.

Notes to Financial Statements, Continued

(8) Capital Assets

Capital asset activity for the years-ended June 30, 2006 and 2005 was as follows:

	Balance at June 30, 2005	Transfers	Increases	Decreases	Balance at June 30, 2006
Capital assets not being depreciated:					
Land	\$ 5,525,000	\$ ---	\$ ---	\$ ---	\$ 5,525,000
Construction in progress	<u>1,013,254</u>	<u>(537,045)</u>	<u>966,044</u>	<u>---</u>	<u>1,442,253</u>
Total capital assets not being depreciated	<u>6,538,254</u>	<u>(537,045)</u>	<u>966,044</u>	<u>---</u>	<u>6,967,253</u>
Capital assets being depreciated:					
Buildings & improvements	31,232,051	---	638,835	---	31,870,886
Fleet	103,685,785	8,216	4,211,817	(12,725,639)	95,180,179
Communications systems	6,186,329	---	391,747	---	6,578,076
Fare collection system	1,914,465	183,780	3,820,098	(864,092)	5,054,251
Office, shop & garage equipment	14,547,026	---	954,019	(117,520)	15,383,525
Passenger facilities	<u>5,070,017</u>	<u>345,049</u>	<u>988,417</u>	<u>(135,086)</u>	<u>6,268,397</u>
Total capital assets being depreciated	<u>162,635,673</u>	<u>537,045</u>	<u>11,004,933</u>	<u>(13,842,337)</u>	<u>160,335,314</u>
Less accumulated depreciation:					
Buildings & improvements	(15,831,474)	---	(1,626,323)	---	(17,457,797)
Fleet	(46,665,784)	---	(10,779,583)	12,725,639	(44,719,728)
Communications systems	(2,538,543)	---	(1,578,879)	---	(4,117,122)
Fare collection system	(1,541,854)	---	(170,823)	864,092	(848,585)
Office, shop & garage equipment	(12,655,014)	---	(860,502)	117,520	(13,397,996)
Passenger facilities	<u>(2,006,988)</u>	<u>---</u>	<u>(1,301,072)</u>	<u>135,086</u>	<u>(3,172,974)</u>
Total accumulated depreciation	<u>(81,239,657)</u>	<u>---</u>	<u>(16,316,882)</u>	<u>13,842,337</u>	<u>(83,714,202)</u>
Total capital assets, being depreciated, net	<u>81,396,016</u>	<u>537,045</u>	<u>(5,311,949)</u>	<u>---</u>	<u>76,621,112</u>
Total capital assets, net	<u>\$ 87,934,270</u>	<u>\$ ---</u>	<u>\$(4,345,905)</u>	<u>\$ ---</u>	<u>\$ 83,588,365</u>

Long Beach Public Transportation Company

Notes to Financial Statements, Continued

	Balance at June 30, 2004	Transfers	Increases	Decreases	Balance at June 30, 2005
Capital assets not being depreciated:					
Land	\$ 5,525,000	\$ —	\$ —	\$ —	\$ 5,525,000
Construction in progress	<u>2,710,163</u>	<u>(2,369,370)</u>	<u>672,461</u>	<u>—</u>	<u>1,013,254</u>
Total capital assets not being depreciated	<u>8,235,163</u>	<u>(2,369,370)</u>	<u>672,461</u>	<u>—</u>	<u>6,538,254</u>
Capital assets being depreciated:					
Buildings & improvements	30,678,068	140,572	413,411	—	31,232,051
Fleet	76,330,368	307,583	27,504,125	(456,291)	103,685,785
Communications systems	5,535,286	11,433	639,610	—	6,186,329
Fare collection system	1,900,404	(183,669)	197,730	—	1,914,465
Office, shop & garage equipment	13,648,110	38,687	1,198,551	(338,322)	14,547,026
Passenger facilities	<u>2,558,554</u>	<u>2,054,764</u>	<u>456,699</u>	<u>—</u>	<u>5,070,017</u>
Total capital assets being depreciated	<u>130,650,790</u>	<u>2,369,370</u>	<u>30,410,126</u>	<u>(794,613)</u>	<u>162,635,673</u>
Less accumulated depreciation:					
Buildings & improvements	(14,214,084)	—	(1,617,390)	—	(15,831,474)
Fleet	(37,772,687)	—	(9,349,388)	456,291	(46,665,784)
Communications systems	(1,080,840)	—	(1,457,703)	—	(2,538,543)
Fare collection system	(1,466,258)	—	(75,596)	—	(1,541,854)
Office, shop & garage equipment	(11,390,746)	—	(1,602,590)	338,322	(12,655,014)
Passenger facilities	<u>(900,612)</u>	<u>—</u>	<u>(1,106,376)</u>	<u>—</u>	<u>(2,006,988)</u>
Total accumulated depreciation	<u>(66,825,227)</u>	<u>—</u>	<u>(15,209,043)</u>	<u>794,613</u>	<u>(81,239,657)</u>
Total capital assets, being depreciated, net	<u>63,825,563</u>	<u>2,369,370</u>	<u>15,201,083</u>	<u>—</u>	<u>81,396,016</u>
Total capital assets, net	<u>\$ 72,060,726</u>	<u>\$ —</u>	<u>\$ 15,873,544</u>	<u>\$ —</u>	<u>\$ 87,934,270</u>

The Company operates from two locations within the City of Long Beach. The principal maintenance facility is located in the central portion of the city and the satellite facility is in North Long Beach. Land included on the Company's books includes a parcel adjacent to the principal maintenance facility and the North Long Beach site. Land occupied by the Company's principal facility has been deeded to the City of Long Beach and is recorded in the accounts of the City.

Notes to Financial Statements, Continued

(9) Subsidy Deferral

The amount of subsidies received each year is based upon estimated funding marks prepared by LACMTA. These estimates are used for budget preparation, with final marks received after final budgets are approved. Subsidies received in excess of expenditures are carried over for use in the next year. Subsidy deferrals of \$12,067,134 and \$11,268,941, for 2006 and 2005, respectively, have been included in the accompanying financial statements.

(10) Pension Benefits

Plan Description

The Company sponsors two single employer defined benefit pension plans: one for contract employees, the Long Beach Public Transportation Retirement Plan - Contract Employees (Contract Plan), and one for salaried employees, the Long Beach Public Transportation Retirement Plan - Salaried Employees (Salaried Plan).

The Company's payroll for employees covered by each plan for the years ended June 30, 2006 and 2005 was \$21,628,593 and \$20,859,915 for the Contract Plan, respectively, and \$7,954,923 and \$7,849,876 for the Salaried Plan, respectively. Total Company payroll for 2006 and 2005 was \$29,908,287 and \$28,918,397, respectively.

The Contract and the Salaried Plans are noncontributory single employer defined benefit pension plans sponsored by the Company. All full-time employees in a job classification covered by a collective bargaining agreement between the Company and the Union participate in the Contract Plan as of their date of employment. All full-time employees not covered by a collective bargaining agreement participate in the Salaried Plan as of their date of employment. Participants in both the Contract and Salaried Plans are eligible for annual benefit payments at the normal retirement age of 64 and completion of ten years of credited service and become 100% vested after five credited years of service. Employees covered under the Salaried Plan can retire prior to 64 with a normal retirement benefit if the combination of the employee's age and service equals 80.

Plan Benefits

Benefit payments for the Salaried Plan are determined as 1.70% of adjusted final monthly earnings multiplied by years of credited service (maximum credit of 40 years). Adjusted final monthly earnings are the employee's highest average monthly wage for 36 consecutive months of earnings during the last ten calendar years of employment, prior to normal retirement date, which provide the highest value.

Benefit payments for the Contract Plan are determined as the sum of the following:

1. 1.23% of the first \$500 of adjusted monthly earnings multiplied by the years of credited service (maximum credit of 40 years).
2. 1.7% of adjusted final monthly earnings greater than \$500 multiplied by the years of credited service (maximum credit of 40 years).

Long Beach Public Transportation Company

Notes to Financial Statements, Continued

As provided in the Company's collective bargaining agreement, the benefit payments for Contract Plan employees retiring after September 30, 2002 but before December 19, 2005, were increased by 8%. For Contract employees retiring on or after December 19, 2005, benefit payments were increased by 15%.

Adjusted final monthly earnings are the employee's highest average monthly wage for 60 consecutive months of earnings during the last 10 calendar years of employment, prior to normal retirement date, which provide the highest value.

Retirees for both Plans, if married, are eligible to receive a joint annuity with a 50% annuity to the surviving spouse and, if unmarried, a straight-life annuity. The Salaried Plan also offers a joint annuity with a 50% annuity to surviving domestic partners. These benefits are actuarially equivalent at the normal retirement date. Plan members are entitled, upon leaving service, to a vested termination of employment benefit if they have completed five years of credited service on their termination date. The vested termination of employment benefit is equal to the normal retirement benefit earned to the termination date.

Death and Disability Benefits

In the event a Plan member dies after reaching retirement age, while still actively employed, a retirement benefit will be paid to the spouse in the amount of 50% of the amount the Plan member would have received under the joint and 50% survivor spouse annuity, assuming retirement occurred the day immediately prior to death.

If a Salaried Plan participant becomes occupationally disabled he or she is entitled to a monthly benefit equal to 1.7% of the participant's average monthly final earnings for each year of service earned. The minimum monthly disability benefits is 17% of the participant average earnings regardless of the length of service or vesting status.

If a Contract Plan participant is totally and permanently disabled with ten or more years of credited service, the participant is entitled to receive the full normal retirement benefit earned to the date of disability, without actuarial reduction, commencing six months after the date of disablement. A reduced occupational disability benefit is available for those Plan members unable to perform their usual work duties who leave service after 10 or more years of credited service.

Termination

The Plan may be amended, altered or modified, or a successor plan may be adopted at any time with the consent of the employer and its Board of Directors or its successor in interest. In the event of termination, the net assets will be allocated based on the order of priority prescribed in the Plan.

Contributions

Plan members are not required or allowed to make contributions to the Plan. The Company is required to make contributions at an actuarially determined rate. Administrative costs of the Plan are financed through investment earnings. Financial statements for the Contract and Salaried Plans are available under separate covers. Copies of the financial statements can be obtained by writing to Long Beach Transit, Attn: CFO, P.O. Box 731, Long Beach, CA. 90801.

Notes to Financial Statements, Continued

Funding Progress

The information presented in the following tables was computed as part of an actuarial valuation performed as of July 1, 2006. Significant actuarial information used in the valuation include:

• Actuarial cost method	Entry age normal cost frozen initial liability
• Amortization method	Level percent closed
• Remaining amortization period	5 years
• Asset valuation method	Market value
• Investment rate of return	8%
• Projected salary increases*	4.0%
*includes inflation at 1.5%	
• Cost-of-living adjustments	None

The following tables (which are unaudited) summarize employer contributions required (based on the actuarial valuations) and contributions made for the years ended June 30:

Contract Plan

Year ended June 30	Annual required contribution	Annual required contribution as a percentage of covered payroll	Percentage contributed
2006	\$ 2,055,584	10.0828%	100%
2005	1,910,696	9.1104	100
2004	2,099,246	10.4870	100
2003	1,908,129	9.9447	100
2002	1,456,659	7.8788	100
2001	1,299,915	5.7966	100
2000	1,735,515	10.0202	100
1999	1,045,522	6.2519	100
1998	1,356,348	7.9979	100
1997	1,536,052	9.2183	100

Salaried Plan

Year ended June 30	Annual required contribution	Annual required contribution as a percentage of covered payroll	Percentage contributed
2006	\$ 1,060,300	12.8813%	100%
2005	1,052,894	13.3531	100
2004	1,194,982	15.4162	100
2003	1,241,173	16.5378	100
2002	938,473	13.5389	100
2001	697,882	11.4635	100
2000	694,540	10.8378	100
1999	396,320	6.2380	100
1998	392,620	7.3664	100
1997	395,815	8.2257	100

Long Beach Public Transportation Company

Notes to Financial Statements, Continued

The following tables (which are unaudited) summarize the status of funding progress based on the actuarial valuations performed as of the dates indicated. The actuarial accrued liability (AAL) is calculated using the entry age method in accordance with GASB. The unfunded AAL (UAAL) is calculated using another method in accordance with the plan document (dollar amounts in thousands):

Contract Plan

Actuarial valuation date (July 1)	(a) Actuarial value of assets	(b) Actuarial Accrued liability (AAL) – entry age	(b-a) Unfunded (Funding Excess) (AAL)	((a/b) Funded ratio	(c) Covered payroll	((b-a)/c) UAAL as a percentage of covered payroll
2006	\$ 24,874	\$ 32,099	\$ 7,225	77.49%	\$ 21,629	33.40%
2005	23,701	29,794	6,093	79.55	20,860	29.21
2004	22,278	26,693	4,415	83.46	20,188	21.87
2003	20,209	26,155	5,916	77.27	19,213	30.79
2002	18,859	24,486	5,627	77.02	18,492	30.43
2001	21,393	29,320	7,927	72.96	18,641	42.52
2000	23,820	23,470	(350)	101.49	17,179	(2.03)
1999	23,445	26,195	2,750	89.50	16,986	16.19
1998	22,987	22,009	(978)	104.44	16,197	(6.04)
1997	20,036	21,698	1,662	92.34	16,028	10.37

Salary Plan

Actuarial valuation date (July 1)	(a) Actuarial value of assets	(b) Actuarial Accrued liability (AAL) – entry age	Unfunded AAL (UAAL)	(a/b) Funded Ratio	(c) Covered Payroll	(b/c) UAAL as a Percentage of covered payroll
2006	\$ 11,553	\$ 14,118	\$ 2,565	81.83%	\$ 7,955	32.24%
2005	11,118	14,183	3,065	78.39	7,850	39.04
2004	10,367	13,721	3,354	75.56	7,783	43.09
2003	8,793	13,248	4,455	66.37	7,517	59.27
2002	6,879	11,453	4,574	60.06	6,999	65.35
2001	6,914	11,047	4,133	62.59	6,413	64.45
2000	7,263	9,522	2,259	76.28	6,435	35.10
1999	6,401	8,465	2,064	75.62	5,801	35.58
1998	7,055	6,979	(76)	101.09	5,177	(1.47)
1997	5,972	6,211	239	96.15	4,853	4.92

Notes to Financial Statements, Continued

(11) Commitments and Contingencies

The Company is subject to claims and lawsuits arising in the normal course of business. Such claims are routinely evaluated by the Company's legal counsel. Management may make provisions for probable losses if deemed appropriate on advice of legal counsel. To the extent provisions for damages are considered necessary, appropriate amounts are reflected in the accompanying financial statements. It is the opinion of management, based on consultation with legal counsel, that the estimated liability for unreserved claims and suits will not have a material impact on the Company's financial statements.

Purchase Contracts

The Company had the following significant purchase commitments outstanding at June 30, 2006:

<u>Vendor</u>	<u>Project</u>	<u>Amount</u>	<u>Expected Completion</u>
New Flyer of America	Bus Replacement	\$ 8,199,399	June 2007
Charles E. Thomas Company	Fuel Tank Upgrade	1,408,979	January 2007
Cinedyne Services	Bus Rehab	620,246	June 2007
Turnpoint Solutions	Software Upgrade	300,000	November 2006
Goodyear Tires	Tires	249,887	July 2007
Creative Bus Sales	Dial-A-Lift Vans	246,876	February 2007
Sardo Bus & Coach	Bus Detailing	227,331	February 2007
	Farebox		
Cubic Transportation Systems	Replacement	108,894	June 2008
Miralles Associates	A&E Services	123,945	October 2006

Lease Obligations

FTA regulations allow the Company's tire leases to be capitalized and depreciated over a twelve (12) month period. Under the terms of the leases, the vendors supply the tires and invoice the Company based on monthly mileage. There are no minimum guarantee payments required in the contracts. Total lease costs were \$500,742 and \$457,457 for the years ended June 30, 2006 and 2005, respectively.

Long Beach Public Transportation Company

Notes to Financial Statements, Continued

(12) Employee Benefits

Vacation Compensation

Employees accrue vacation by reason of tenure at annual rates ranging from 12 to 30 days per year. Salaried employees may accumulate and carry-over no more than the number of vacation days earned in the previous year. Contract employees are paid their earned vacation in full each year. On June 30, 2006 and 2005 accrued unpaid vacation for all Company employees amounted to \$1,864,041 and \$1,798,872, respectively.

<u>Balance 6/30/05</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/06</u>	<u>Due Within One Year</u>
\$ 1,798,872	\$ 1,864,041	(\$ 1,798,872)	\$ 1,864,041	\$ 1,864,041

<u>Balance 6/30/04</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/05</u>	<u>Due Within One Year</u>
\$ 1,831,057	\$ 1,798,872	(\$ 1,831,057)	\$ 1,798,872	\$ 1,798,872

Once a year the Company allows employees to sell back a portion of their earned vacation in lieu of taking the time off. The Company has agreed to buy back vacation time in excess of ten (10) days earned during the calendar year. Vacation days carried over from the previous year are not eligible for this program. The Company paid \$130,979 and \$145,957 under this program during 2006 and 2005, respectively.

Post-Retirement Health Care Benefits

Full-time Company employees are entitled to receive up to 96 hours of sick leave per year. Contract employees can accrue a maximum of 1,200 unused sick hours. Unused sick leave may be accumulated until retirement with the cash value, or a percentage thereof for Contract retirees, used to pay health and dental insurance premiums under the Company's Retired Employees Health Insurance Program (REHIP). Once the cash value of the retiring employee's unused sick leave is exhausted, the retiree is required to pay all health and dental premiums.

There were 62 and 50 participants in the Company's REHIP at June 30, 2006 and 2005, respectively, and the cash value equivalent of the remaining unused sick leave for the current retirees totaled \$398,311 and \$262,829, respectively. Total premiums paid by the Company under the REHIP during the fiscal year ended June 30, 2006 and 2005, were \$79,808 and \$57,632, respectively.

The Company has established a liability related to unused sick leave which it estimates will be used by retirees to cover premiums under the REHIP. The estimated costs of the REHIP for both current and expected future payments is \$807,993 and \$738,772 at June 30, 2006 and 2005, respectively.

<u>Balance 6/30/05</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/06</u>	<u>Due Within One Year</u>
\$ 738,722	\$ 149,079	(\$ 79,808)	\$ 807,993	\$ 62,413

<u>Balance 6/30/04</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/05</u>	<u>Due Within One Year</u>
\$ 723,156	\$ 73,248	(\$ 57,632)	\$ 738,772	\$ 42,922

statistics



STATISTICAL SECTION

This part of Long Beach Public Transportation Company's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the Company's overall financial health.

<u>Contents</u>	<u>Page</u>
Financial Trends <i>These schedules contain trend information to assess how the Company's financial performance and well-being have changed over time.</i>	33
Revenue Capacity <i>These schedules contain information on the Company's revenue sources and their fluctuations over time.</i>	36
Demographic and Economic Information <i>These schedules offer demographic and economic indicators regarding the environment within which the Company's financial activities take place.</i>	38
Operating Information <i>These schedules contain information about services the Company provides and the activities it performs.</i>	40
Pension Information <i>The Company's pension plan financial statements are issued under separate cover. The schedules contained in this section include general financial and actuarial information providing data concerning the Plans' funding status and general activity.</i>	47
Grant Information <i>The Company's grant programs are issued under separate cover in the Single Audit. The schedules contained in this section provide a summary of capital grant activity for Federal, State and Local sources.</i>	49

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

Long Beach Public Transportation Company

Financial Trends Net Assets by Component 1997 - 2006

Exhibit 1

	Invested in Capital Assets	(2)	Restricted	Unrestricted	Total
1997	\$ 47,018,572		\$ ---	\$ 5,695,722	\$ 52,714,294
1998	57,746,257		---	5,695,722	63,441,979
1999	59,840,227		38,935	5,656,787	65,535,949
2000	55,593,183		31,951	5,663,771	61,288,905
2001	63,709,904		249,821	3,534,257 (1)	67,493,982
2002	65,847,844		31,951	3,574,975	69,454,770
2003	77,966,453		---	3,606,926	81,573,379
2004	72,060,726		166,914	3,437,866	75,665,506
2005	87,934,270		166,914	3,437,866	91,539,050
2006	83,588,365		113,048	3,491,732	87,193,145

- (1) The Company adopted GASB Statement No. 34 which required reclassification of certain balances, including the presentation of net assets formerly labeled retained earnings and contributed capital.
- (2) Fluctuations in balances reflect the Company's procurement of capital assets in each year. Significant changes occur in years which included the receipt of new buses.

Financial Trends Operating Expenses By Type 1997 - 2006

Exhibit 2

	Personnel Wages & Benefits	Fuel & Lubricants	Supplies & Materials	Services	Casualty & Liability	Purchased Transportation	Depreciation	Total
1997	\$ 27,854,653	\$ 1,824,861	\$ 1,846,759	\$ 2,422,087	\$ 985,766	\$ 1,621,720	\$ 5,259,187	\$41,815,033
1998	28,958,455	1,421,787	1,964,487	3,355,280	886,043	1,532,586	6,187,170	44,305,808
1999	31,223,850	1,347,280	1,923,345	3,390,118	783,770	1,017,816	7,103,500	46,789,679
2000	32,588,090	2,076,369	2,057,487	3,547,541	1,052,707	998,216	8,629,876	50,950,286
2001	35,647,176	2,584,996	2,306,176	3,863,431	1,297,859	1,101,174	9,835,476	56,636,288
2002	36,871,022	2,086,874	2,341,896	3,767,081	1,438,326	1,372,084	11,564,783	59,442,066
2003	38,769,171	2,448,437	2,103,616	4,238,861	1,740,925	1,272,669	13,608,074	64,181,753
2004	41,828,220	3,165,438	2,146,233	4,205,815	1,973,444	1,365,827	13,673,096	68,358,073
2005	41,013,333	4,254,173	2,327,356	4,403,307	1,398,575	1,304,570	15,209,043	69,910,357
2006	43,174,005	5,748,498	1,999,984	4,769,648	1,506,641	1,320,429	16,316,882	74,836,087

Long Beach Public Transportation Company

Financial Trends Changes in Net Assets 1997 - 2006

Exhibi

Expenses	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Transportation	\$22,824,781	\$ 22,632,640	\$22,568,339	\$ 24,168,785	\$22,952,978	\$ 23,511,227	\$ 25,385,931	\$27,723,568	\$ 27,366,019	\$ 29,156,285
Maintenance	7,016,537	7,499,664	8,110,895	8,964,777	12,555,495	12,736,587	13,400,059	14,154,855	15,781,778	16,800,999
Risk Management	2,237,670	2,717,462	3,292,778	3,286,958	5,414,268	5,681,131	5,026,416	6,076,869	4,223,185	5,068,951
Marketing & Customer Service	962,688	1,433,197	1,376,805	1,412,759	1,362,181	1,144,752	1,567,140	1,263,387	1,296,256	1,286,531
General Administration	3,514,170	3,835,675	4,337,362	4,487,131	4,515,890	4,803,586	5,194,133	5,466,298	6,034,166	6,206,439
Depreciation	5,259,187	6,187,170	7,103,500	8,629,876	9,835,476	11,564,783	13,608,074	13,673,096	15,209,043	16,316,882
Total Expenses	\$41,815,033	\$44,305,808	\$46,789,679	\$50,950,286	\$56,636,288	\$59,442,066	\$64,181,753	\$68,358,073	\$69,910,357	\$74,836,087
Revenues										
Passenger Fares	\$11,213,565	\$ 11,911,197	\$12,569,177	\$ 12,665,927	\$12,601,278	\$ 12,571,238	\$ 12,382,726	\$ 12,676,716	\$ 12,814,406	14,542,379
Special Events	197,154	73,338	64,598	64,738	120,365	26,150	85,589	91,467	85,671	38,346
Advertising	404,650	483,883	514,248	640,000	962,666	937,932	787,856	906,250	743,750	724,158
Subsidies	23,891,493	24,570,440	25,197,099	27,596,166	31,983,169	33,627,182	36,932,476	40,615,870	40,444,529	42,078,890
Interest & Other	848,984	1,079,780	1,341,057	1,353,579	1,133,334	536,630	385,032	394,674	612,958	1,135,432
Total Revenues	\$36,555,846	\$ 38,118,638	\$39,686,179	\$ 42,320,410	\$46,800,812	\$ 47,699,132	\$ 50,573,679	\$ 54,684,977	\$ 54,701,314	58,519,205
Net Expense	\$ (5,259,187)	\$ (6,187,170)	\$ (7,103,500)	\$ (8,629,876)	\$ (9,835,476)	\$ (11,742,934)	\$ (13,608,074)	\$ (13,673,096)	\$ (15,209,043)	\$ (16,316,882)
Capital Grants	16,449,872	15,894,491	11,053,302	8,888,298	11,576,408	13,703,722	25,726,683	7,765,223	31,082,587	11,970,977
Change in Net Assets	\$11,190,685	\$ 9,707,321	\$ 3,949,802	\$ 258,422	\$ 1,740,932	\$ 1,960,788	\$ 12,118,609	\$ (5,907,873)	\$ 15,873,544	\$ (4,345,905)

Financial Trends Capital Expenditures By Type 1997 - 2006

Exhibit 4

Fiscal Year	Facilities	Fleet	Passenger Facilities	AVL, Farebox & Radio Equipment	Furniture & EDP Equipment	Shop & Garage Equipment	Total
1997	\$ 2,016,527	\$ 14,149,571	\$ 55,702	\$ 171,931	\$ 1,042,747	\$ 111,032	\$ 17,547,510
1998	9,656,543	6,750,622	105,695	37,887	326,300	37,808	16,914,855
1999	2,832,711	4,058,174	536,174	364,081	1,167,934	237,934	9,197,470
2000	632,924	2,559,119	266,307	174,392	475,347	274,743	4,382,832
2001	350,339	14,117,206	327,718	78,434	961,265	208,457	16,043,419
2002	953,180	6,940,198	801,494	1,424,775	3,388,494	195,580	13,703,722
2003	563,536	20,082,479	702,691	3,301,673	785,846	290,458	25,726,683
2004	469,413	3,503,160	2,302,210	818,230	358,811	313,399	7,765,223
2005	761,993	27,650,227	719,055	728,378	1,032,081	190,853	31,082,587
2006	903,110	4,311,805	991,917	4,219,234	728,595	816,316	11,970,977

Revenue Capacity Operating Subsidy Sources 1997 - 2006

Exhibit 5

	Prop A Funds City of Long Beach	Prop A Funds L.A. County	Prop C Funds L.A. County	State Assistance	Federal Preventative Maintenance Program	Other Sources	Total
1997	\$ 1,570,636	\$ 5,695,500	\$ 3,682,296	\$12,540,789	\$ ---	\$ 402,272	\$ 23,891,493
1998	1,548,538	9,480,638	1,941,408	10,289,703	960,000	350,153	24,570,440
1999	489,011	9,676,231	3,871,281	9,925,488	600,000	635,088	25,197,099
2000	1,132,964	10,180,128	5,594,138	9,684,000	600,000	404,936	27,596,166
2001	2,730,907	13,391,456	3,797,283	10,972,272	660,000	431,251	31,983,169
2002	3,924,805	11,464,183	4,376,041	12,518,354	924,976	418,823	33,627,182
2003	5,421,163	8,714,058	5,328,950	14,231,214	2,928,720	308,371	36,932,476
2004	6,561,550	9,448,398	5,557,841	17,755,993	836,800	455,288	40,615,870
2005	5,740,953	7,956,295	5,296,405	18,236,348	2,533,066	681,462	40,444,529
2006	5,014,805	11,333,677	4,145,171	20,655,260	302,184	627,793	42,078,890

Revenue Capacity Farebox Recovery Percentage 1997 - 2006

Exhibit 6

<u>Year</u>	<u>Percentage</u>
1997	32.5%
1998	33.0
1999	32.5
2000	30.7
2001	27.7
2002	27.3
2003	25.2
2004	23.8
2005	24.1
2006	25.8

NOTE: Represents passenger fares divided by fixed route operating expenses before depreciation.

Long Beach Public Transportation Company

Revenue Capacity Fare History 1997 – 2007

Exhibit 7

	<u>1997-1998</u>	<u>1999-2002</u>	<u>2003-2005</u>	<u>2006-2007</u>
Fixed Route Service:				
<u>Cash Fares:</u>				
Regular	\$.90	\$.90	\$.90	\$.90
Student	.75	.75	.75	.90
Senior & Disabled	.45	.45	.45	.45
Local transfer	.10	.10	.10	---
Interagency transfer	.35	.35	.35	.50
<u>Day Pass:</u>				
Regular				\$ 2.50
Discounted				1.50
<u>Monthly Pass:</u>				
Regular	\$ 40.00	\$ 40.00	\$ 40.00	\$ 50.00
Student	23.00	23.00	23.00	31.00
Senior & Disabled	11.00	11.00	11.00	19.00
Dial-A-Lift Service:				
Cash Fares	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.50
Water Taxi:				
Cash Fares - AquaBus		\$ 1.00	\$ 1.00	\$ 1.00
Cash Fares - AquaLink			2.00	2.00

Demographic and Economic Information City of Long Beach Demographic Statistics 1996-2005*

Exhibit 8

Fiscal Year Ended June 30	Estimated Population (A)	Median Age (B)	Public School Enrollment (C)	Unemployment Rate (D)
1996	425,807	29.8	88,530	8.2%
1997	441,718	29.0	91,932	6.6
1998	446,227	28.9	89,408	6.2
1999	452,905	29.0	91,465	5.6
2000	457,608	29.0	94,527	5.5
2001	461,522	30.8	95,193	5.7
2002	473,131	31.0	97,369	6.3
2003	480,973	N/A	97,370	6.4
2004	487,100	N/A	97,560	5.9
2005	491,564	N/A	96,319	6.5

Sources:

- (A) California Department of Finance. In 1996, the City of Long Beach Planning and Building Department calculated the city population based on the redistricting to be 425,807. The estimated population per the California Department of Finance for fiscal year 1996 was 437,708.
- (B) The City of Long Beach, Department of Planning and Building Advance Planning Division's estimates are used for fiscal years 1996 through 2002. As of fiscal year 2003, Advanced Planning no longer compiles this estimate.
- (C) California Department of Education. Annual school census from Long Beach Unified School District for preschool, grades Kindergarten through 12.
- (D) Average annual rate for Los Angeles County reported by California Employment Development Department (EDD).

N/A - not available.

* Data not available for 2006.

Long Beach Public Transportation Company

Demographic and Economic Information City of Long Beach Summary of Major Employers September 30, 2005*

Exhibit 9

Employer	2005 Number of Employees	Rank	1996 Number of Employees	Rank
Boeing, N.A. (Previously - McDonnell Douglas)	9,175	1	19,000	1
Long Beach Unified School District	9,050	2	6,536	2
City of Long Beach	6,153	3	4,203	3
Pacific Maritime Association	5,120	4	---	---
Long Beach Memorial Medical Center	4,675	5	3,706	5
California State University, Long Beach	4,050	6	4,032	4
Veterans Affairs Medical Center	2,345	7	2,747	6
Long Beach City College	1,810	8	1,221	13
St. Mary Medical Center	1,765	9	1,515	10
U.S. Postal Service	980	10	1,946	7
Ralphs	885	11	---	---
Pacific Hospital of Long Beach	800	12	---	---
CSULB Foundation	710	13	---	---
Long Beach Transit	695	14	---	---
Target Stores	670	15	---	---
Sam's Club	670	15	---	---
Bank of America	---	---	1,923	8
GTE California	---	---	1,700	9
The Braggs Companies	---	---	1,500	11
Edison International	---	---	1,365	12
State of California	---	---	1,350	13
Long Beach Community Hospital	---	---	1,100	15

Source: City of Long Beach, Department of Community Development, Long Beach Major Employer Directory.

* This is the latest information available.

Operating Information Key Performance Indicators 1997 - 2006

Exhibit 10

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
<u>Fixed Route</u>										
Operating Cost Per Vehicle Service Hour	\$55.70	\$58.22	\$60.19	\$63.63	\$70.16	\$70.74	\$73.74	\$76.52	\$75.64	\$83.12
Operating Cost Per Passenger	\$ 1.44	\$ 1.41	\$ 1.40	\$ 1.55	\$ 1.74	\$ 1.79	\$ 1.89	\$ 1.96	\$ 1.95	\$ 2.08
Roadcalls	n/a	n/a	1,446	1,349	1,158	942	1,034	978	1,133	871
Miles Between Roadcalls	6,046	5,906	5,214	6,704	6,511	7,207	7,338	8,257	7,211	9,014
Total Accidents	794	804	829	745	902	837	819	854	754	883
Preventable Accidents	n/a	n/a	n/a	138	157	143	105	139	138	164
Preventable Accidents Per 100,000 Miles	n/a	n/a	n/a	1.96	2.23	2.01	1.34	1.72	1.69	2.09
Passengers per Vehicle Service Hour	41	42	43	44	45	45	43	41	41	40
Service Delivery Rate	n/a	n/a	n/a	n/a	99.95%	99.99%	99.75%	99.72%	99.73%	99.35%
Number of Vehicles	n/a	n/a	n/a	202	219	224	221	221	228	229
Number of Employees	n/a	551	604	612	616	672	711	715	691	680
<u>Special Services</u>										
Dial-A-Lift Cost Per Passenger	\$20.38	\$21.51	\$13.68	\$11.87	\$12.45	\$12.71	\$13.42	\$14.71	\$15.97	\$18.57
Dial-A-Lift Passengers Per Vehicle Service Hour	2.3	2.2	2.2	3.3	4.2	5.1	5.6	6.1	5.9	5.3
Number of Dial-A-Lift Vehicles	n/a	n/a	n/a	22	23	18	18	18	18	18
Water Taxi Cost Per Passenger *	---	---	\$ 1.13	\$ 3.18	\$ 4.16	\$ 5.69	\$ 4.69	\$ 5.91	\$ 6.29	\$ 7.10
Water Taxi Passengers Per Vehicle Service Hour *	---	---	31.9	13.1	10.6	12.9	18.1	15.6	18.56	14.03
Number of Water Taxi Vessels *	---	---	2	2	2	3	3	3	3	3

* Water taxi service began in fiscal year 1999.

n/a – information not readily available.

Long Beach Public Transportation Company

Operating Information Customer Satisfaction Trends 1995-2006*

Exhibit 11

<u>Service Element</u>	% of Customers Rating Favorably									
	1995	1996	1998	1999	2000	2001	2002	2003	2004	2006
LBT Overall	94	87	92	91	96	94	92	94	92	90
LBT Compared to Others	93	90	86	94	92	86	87	88	91	87
Driver Appearance	94	97	97	96	98	100	96	96	96	97
Fares	80	91	94	91	91	89	90	94	92	88
Transfers	88	88	89	89	93	91	93	92	85	--
Driver Courtesy	93	85	92	89	92	89	86	89	86	90
Driver Safety	95	93	95	97	95	92	91	93	92	93
On Board Safety	---	82	95	94	92	93	90	91	88	91
Route Convenience	91	88	91	91	93	90	93	96	85	92
Information Available	87	86	89	92	92	90	91	89	89	88
Telephone Information	92	83	92	88	88	88	86	86	86	81
Bus Stop Safety	86	80	91	90	90	92	87	84	83	86
Bus Stop Convenience	---	94	93	93	94	95	96	94	---	94
Schedule Reliability	80	64	66	82	80	82	75	84	69	74
Bus Cleanliness	83	84	91	92	88	88	88	90	79	84
Bus Stop Cleanliness	63	63	76	88	85	84	82	74	80	81
Customer Satisfaction Index**	87	85	90	91	91	90	89	90	86	88

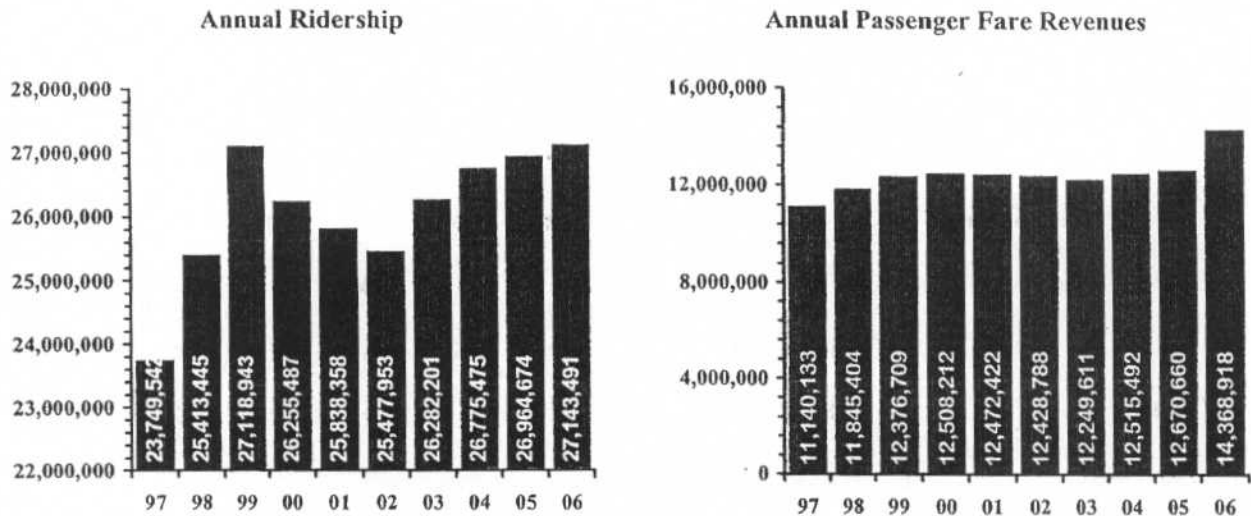
Source: Annual community survey.

* Formal customer surveys were not performed for fiscal years 1997 and 2005.

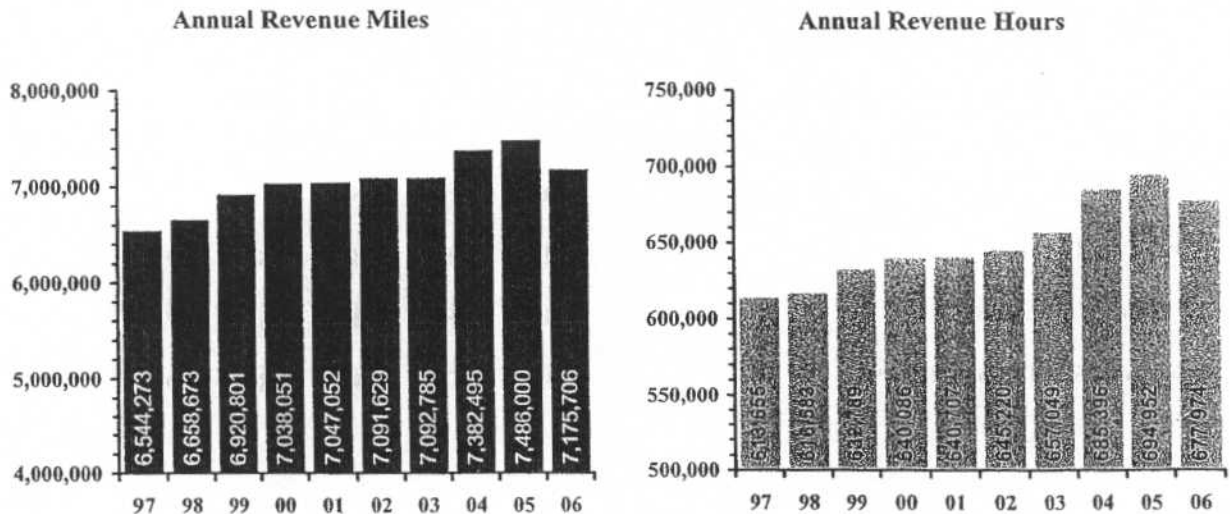
** The customer satisfaction index is an average of the above ratings.

Operating Information Fixed Route Statistics 1997 - 2006

Exhibit 12



Effective July 1, 2005, Long Beach Transit implemented a fare increase resulting in an additional 13% in fare revenues for the fiscal year. Service levels were reduced during 2006 due to financial uncertainties caused by state-imposed regulations regarding operator meal and rest periods. This issue was successfully resolved during labor negotiations and the Company is in the process of restoring service levels to 2005 levels.

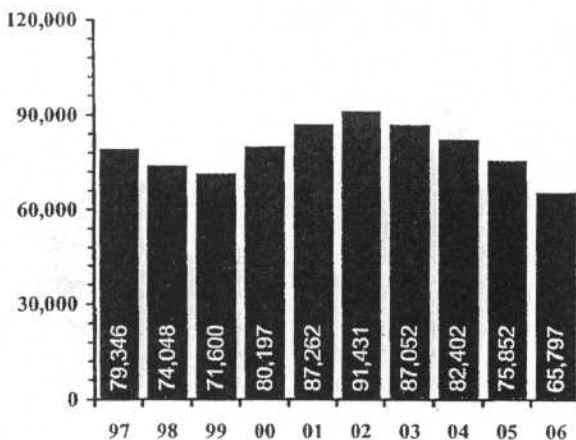


Source: Long Beach Transit's Annual National Transit Database Report

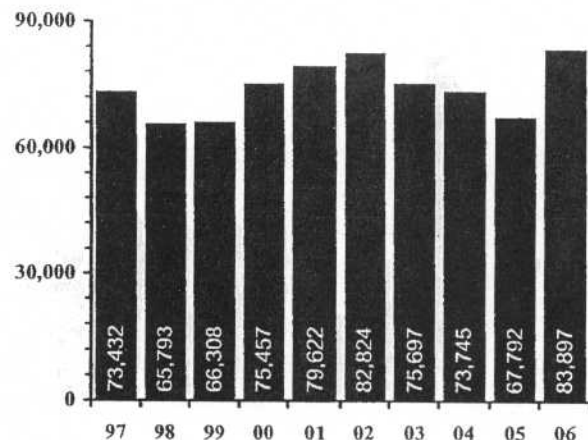
Operating Information Dial-A-Lift Statistics 1997 - 2006

Exhibit 13

Annual Ridership

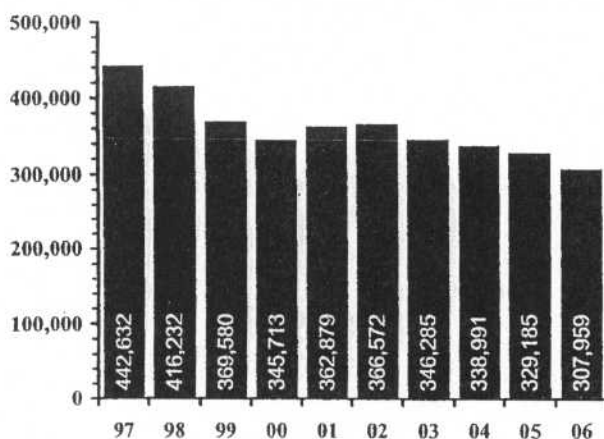


Annual Passenger Fare Revenues

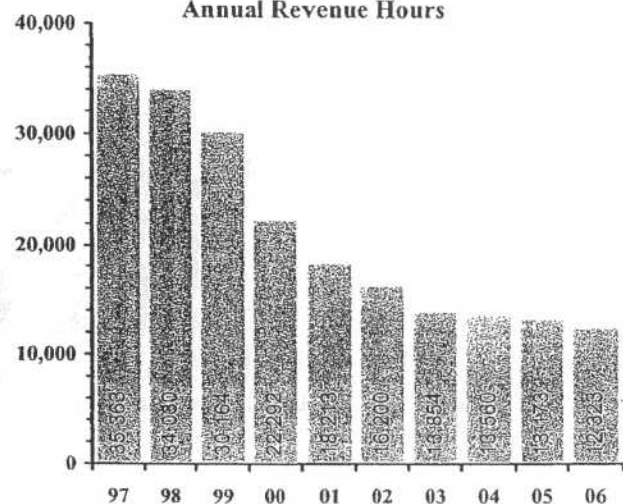


In fiscal year 1999, the Company selected a new vendor to operate the Dial-A-Lift program. The service, previously supplied with dedicated vehicles only, would now be supplemented by using local taxi service. Beginning in fiscal year 2003, the Company then determined it would be more efficient to eliminate the remaining five dedicated vans, using only taxi service. The changes in service have resulted in dramatic cost savings and higher productivity. Lower revenue hours were not due to less service, but from a change in how taxi operators record trip information. In the last two fiscal years, previous Dial-A-Lift customers have begun using the fixed route system which is 100% wheelchair accessible.

Annual Revenue Miles



Annual Revenue Hours

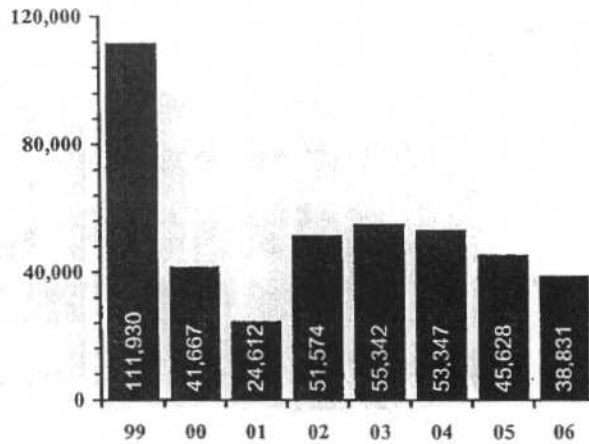


Source: Long Beach Transit's Annual National Transit Database Report

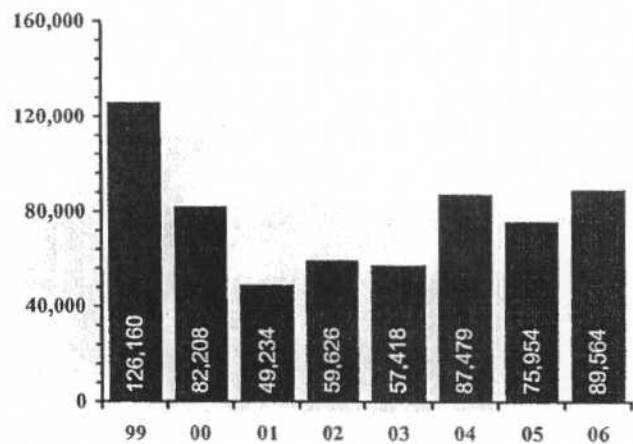
Operating Information Water Taxi Statistics 1999-2006*

Exhibit 14

Annual Ridership

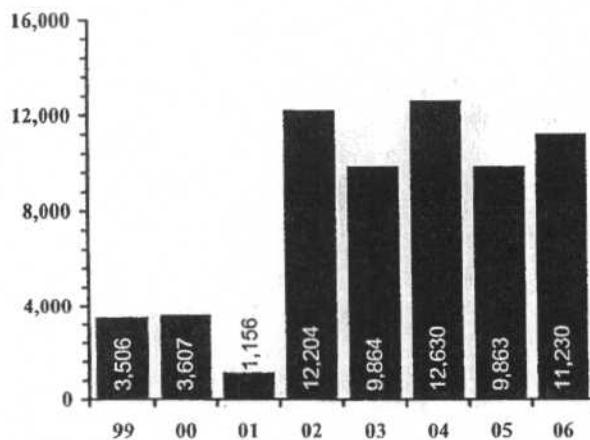


Annual Passenger Fare Revenues

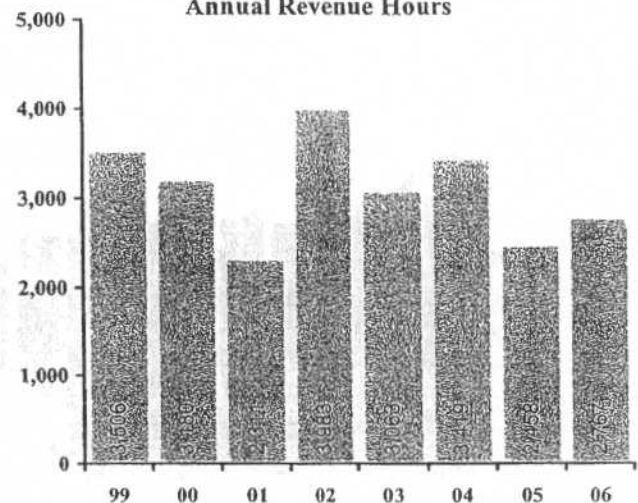


There are two routes for the water taxi service. The Aquabus is assigned two smaller vessels and the Aqualink service is provided by a larger catamaran. From November 2004 to February 2005, the catamaran was removed from service for repairs. One of the smaller vessels was reassigned to provide reduced service on the Aqualink line. As such, all operating statistics for water taxi service declined in fiscal year 2005. Fare revenues in 2006 were higher due to a fare increase that was implemented on July 1, 2005.

Annual Revenue Miles



Annual Revenue Hours



Source: Long Beach Transit's Annual National Transit Database Report

* Water taxi service began operation June 20, 1998.

Long Beach Public Transportation Company

Operating Information Schedule of Insurance in Force June 30, 2006

Exhibit 15

Program	Expiration Term	Company	Amount/Limit
---------	-----------------	---------	--------------

LIABILITY

A. Excess General and Auto Liability

7/1/07	1 yr	Everest National Insurance Company	\$10,000,000 excess of \$1,000,000
--------	------	------------------------------------	---------------------------------------

B. Underground Storage Tank- Third Party Liability

3/4/07	1 yr	Illinois Union Insurance Co.	\$1,000,000 - each incident \$2,000,000 - aggregate excess of \$10,000
--------	------	------------------------------	--

PROPERTY & SPECIAL MULTI-FLEX

3/14/07	1 yr	Hartford Fire Insurance Company	\$ 17,000,000 Real Property
			\$ 25,350,000 Business Personal Property
			\$ 15,000,000 Buses in the open
			\$ 460,000 Extra Expense
			\$ 2,500 per occurrence; except \$25,000 buses

EXCESS WORKERS COMPENSATION

9/1/06	1 yr	Midwest Employers Casualty Company	\$25,000,000 excess of \$3,000,000 \$500,000 corridor deductible
--------	------	------------------------------------	--

CRIME SHIELD POLICY

8/8/07	1 yr	Hartford Fire Insurance Co.	\$1,000,000 - employee theft; \$20,000 deductible
			\$1,000,000 - computer and funds transfer fraud; \$5,000 deductible
			\$100,000 - theft, disappearance and destruction; \$5,000 deductible

Source: Long Beach Transit's Risk Management Department.

Long Beach Public Transportation Company

Operating Information Fixed-Route Bus Service Summary of Service Frequency and Hours of Operation

Exhibit 16

ROUTES	FREQUENCY OF SERVICE						DAILY HOURS OF OPERATION		
	<u>Peak/Base</u> (5am-6pm)			<u>Evening/Night</u> (after 6pm)			Weekday	Saturday	Sunday
	Weekday	Saturday	Sunday	Weekday	Saturday	Sunday			
1	20/30	40	40	30/60	40	40	538A - 1258X	520A - 1000P	520A - 1000P
7	20/30	40	40	30	40	40	517A - 810P	520A - 950P	520A - 950P
20	15	20	20	15/30/60	20/30/60	20/30/60	445A - 1255X	513A - 1253X	513A - 1253X
40	6/10	12	15	12/30/60	15/30/60	15/30	436A - 1254X	525A - 1254X	525A - 1254X
50	15	20	25	20/30	20/30	25/30	457A - 1225X	500A - 1225X	500A - 1225X
60	10/12	15	15	30	30	30	440A - 110X	535A - 105X	535A - 105X
66 ZAP	12	--	--	--	--	--	600A - 945A	----	----
							115P - 605P		
80	30/40	--	--	--	--	--	521A - 554P	----	----
90	12	20	20	15/30/60	20/30/60	20/35	517A - 1256X	525A - 1255X	525A - 1255X
96 ZAP	10	--	--	--	--	--	600A-925A	----	----
							230P-555P		
100	15	30/60	--	15/40	--	--	445A - 1016P	550A - 638P	----
110	15/20	30/35	30/35	15/30	30/60	30/60	501A - 115X	540A - 1257X	540A - 1257X
130	30	60	60	30	60	60	455A - 805P	600A - 710P	600A - 710P
170	15	20	20	15/30/60	25/30/60	25/30/60	502A - 1250P	517A - 1252X	517A - 1252X
171	30	--	--	30	--	--	458A - 836P	----	----
180	20	20	20/60	20/60	20/40	20/40	436A - 1251X	521A - 1251X	521A - 1251X
190	15	20	20	15/30	20/30	20/30	443A - 107X	557A - 107X	557A - 107X
Passport A/D	15	15	15	15/20	15/20	15/20	505A - 100X	520A - 1240X	520A - 1240X
Passport B	10	8	8	8/20	8/20	8/20	530A - 1258X	530A - 1258X	530A - 1258X
Passport C	12	12	12	12/30	12/30	12/30	530A - 1232X	530A - 1232X	530A - 1232X
Tour D'Art	40	40	40	40	40	40	1000A - 740P	1000A - 740P	1000A - 740P

Source: Long Beach Transit's Service Development Department

Long Beach Public Transportation Company

Pension Information Employer Pension Contributions 1997 - 2006

Exhibit 17

Fiscal Year Ended June 30	Employer Contribution	Payroll	Contribution as a Percentage of Payroll
<u>Contract Plan</u>			
1997	\$ 1,536,052	\$ 16,032,330	9.22%
1998	1,356,348	16,197,093	8.00
1999	1,045,522	16,985,634	6.25
2000	1,737,843	17,178,884	10.02
2001	1,299,915	18,640,591	7.00
2002	1,456,659	18,702,293	7.88
2003	1,908,129	19,213,438	9.94
2004	2,099,246	20,188,278	10.49
2005	1,910,696	20,859,915	9.11
2006	2,055,584	21,628,593	10.08
<u>Salaried Plan</u>			
1997	\$ 395,815	\$ 4,853,247	8.23%
1998	392,620	5,177,062	7.37
1999	396,320	5,801,829	6.66
2000	694,540	6,434,724	10.84
2001	697,882	6,413,045	11.46
2002	938,473	6,999,408	13.54
2003	1,241,173	7,516,706	16.54
2004	1,194,982	7,783,115	15.42
2005	1,052,894	7,849,876	13.35
2006	1,060,300	7,954,923	12.88

Source: Contract and Salaried pension plan financial statements for the year-ended June 30, 2006. These financial statements are prepared under separate cover and contain additional trend information.

Long Beach Public Transportation Company

Pension Information Pension Revenues by Source and Expenses by Type 1997 - 2006

Exhibit 18

Fiscal Year Ended June 30	Revenues by Source				Expenses by Type			
	Employer Contribution	Benefit transfer receivable	Investment Return	Total	Administrative Expenses	Benefit Payments	Benefit transfer payable	Total
<u>Contract Plan</u>								
1997	\$ 1,536,052	\$ ---	\$ 3,059,283	\$ 4,595,335	\$ 176,433	\$ 1,710,276	\$ ---	\$ 1,886,709
1998	1,356,348	---	2,823,371	4,179,719	165,869	1,063,521	---	1,229,390
1999	1,045,522	---	975,219	2,020,798	179,130	1,383,183	---	1,562,313
2000	1,735,515	---	844,726	2,580,241	197,609	2,008,148	---	2,205,757
2001	1,299,915	---	(1,242,132)	57,783	190,122	2,294,629	---	2,484,751
2002	1,456,659	---	(978,566)	478,093	168,646	2,842,807	---	3,011,453
2003	1,908,129	---	927,966	2,836,095	159,046	1,327,836	720,171	2,207,053
2004	2,099,246	---	2,752,163	4,851,409	203,377	1,835,296	22,853	2,061,526
2005	1,910,696	---	2,29,549	3,940,245	191,829	2,294,689	31,496	2,518,014
2006	2,055,584	---	2,599,457	4,655,041	226,499	3,082,077	---	3,308,576
<u>Salaried Plan</u>								
1997	\$ 395,815	\$ ---	\$ 868,699	\$ 1,264,514	\$ 66,743	\$ 131,758	\$ ---	\$ 198,501
1998	392,620	---	928,558	1,321,178	83,931	153,808	---	237,739
1999	396,320	---	462,215	858,535	88,488	1,424,295	---	1,512,783
2000	694,540	---	427,294	1,121,834	94,575	165,700	---	260,275
2001	697,882	---	(222,349)	475,533	80,988	743,032	---	824,020
2002	938,473	---	(239,242)	699,231	81,827	652,957	---	734,784
2003	1,241,173	720,171	423,704	2,385,048	89,856	380,953	---	470,809
2004	1,194,982	22,853	1,253,069	2,470,904	108,519	788,282	---	896,801
2005	1,052,894	31,496	976,622	2,061,012	107,490	1,202,742	---	1,310,232
2006	1,060,300	---	1,014,406	2,074,706	130,980	1,669,281	---	1,800,261

Source: Contract and Salaried pension plan financial statements for the year-ended June 30, 2006. These financial statements are prepared under separate cover and contain additional trend information.

Long Beach Public Transportation Company

Grant Information Capital Grant History Federal Grants 1997 - 2006

Exhibit 19

FTA Grants	Authorized Amount	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
CA-03-0368	\$13,875,000	\$1,519,639	\$6,649,348	\$ 501,936	\$ 3,311						
CA-90-X540	4,680,000	282,977									
CA-90-X593	4,685,800	2,277,017	443,755								
CA-90-X671	7,362,000	6,914,435	48,946	177,703	66,771	\$ 19,972					
CA-90-X717	3,397,000	972,919	2,120,859	47,608	244,493	11,122					
CA-03-0468	1,488,850		658,592					\$ 829,949			
CA-03-0443	1,000,000		1,000,000								
CA-03-0474	992,500		401,218	316,977	11,857	72,358	\$ 189,578	508			
CA-90-X778	3,267,220		821,208	841,697	487,313	576,287	540,713				
CA-90-X841	3,793,248			1,280,780	1,326,193	924,112	254,938	11,406			
CA-03-0496	1,465,794				7,742	1,104,549	94,610	92,632	\$ 66,258		
FBD	1,200,000				61,451	1,138,548					
CA-90-X915	8,769,677				530,284	951,221	846,627	5,875,660	176,109	\$ 320,232	\$ (1,267)
CA-90-X950	6,249,570			69,861	10,437	2,483,944	1,126,987	80,438	1,288,310	1,212,151	(21,161)
CA-90-Y057	10,381,045					447,781	5,197,417	2,201,222	899,083	1,225,417	273,569
CA-90-Y082	11,356,000						170,751	5,195,237	407,214	1,177,836	3,478,611
CA-90-Y117	7,751,180						1,577,124	4,024,566	591,854	529,645	104,451
CA-03-0596	1,980,630							60		1,966,039	23,702
CA-90-X011	35,000							13,096	21,905		
CA-90-Y136	7,788,668							2,916,966	1,381	4,526,858	297,813
CA-90-Y226	10,958,295							83,659	1,875,129	6,216,499	2,077,500
CA-90-Y271	9,982,170								35,834	5,154,206	1,574,121
CAL0301	204,000								131,611		(131,611)
CA-03-0642	1,980,058									1,921,249	58,809
CA-03-0664	2,074,022									1,668,386	53,052
CA-90-Y391	13,354,479										454,548
		\$11,966,987	\$12,143,926	\$3,236,562	\$2,749,852	\$7,729,894	\$9,998,745	\$21,325,399	\$5,594,688	\$25,918,518	\$8,242,137

Long Beach Public Transportation Company

Grant Information Capital Grant History State Grants 1997 – 2006

Exhibit 20

State Grants	Authorized Amount	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
CA-03-0368	\$ 4,625,000	\$ 506,547	\$2,216,450	\$ 167,213	\$ 47,164	\$ 669	\$ 699				
CA-90-X540	1,170,000	70,825									
CA-90-X593	1,164,700	569,173	147,114								
CA-90-X671	1,841,000	1,728,608	12,237	44,426	16,693	5,493					
CA-90-X717	849,250	243,230	530,215	11,902	61,121	3,078					
CA-03-0468	372,212		164,648					\$ 207,873			
CA-03-0443	333,334		333,334								
CA-03-0474	250,000		100,304	79,244	2,964	18,090	47,394	127			
CA-90-X778	816,805		12,342	215,187	121,858	144,072	130,385				
CA-90-X841	947,812			320,195	332,822	231,028	63,738	10,362			
CA-90-X915	2,142,753			17,465	120,974	237,806	211,656	1,453,638	\$ 44,035	\$ 77,936	\$ 329
CA-03-0496	366,448				1,935	276,138	23,652	20,809	41,566		
CA-90-X950	1,660,481				3,473	620,458	281,791	123,719	399,844	204,778	11,388
CA-90-Y057	2,429,263					111,692	1,245,281	557,130	224,773	302,449	79,382
CA-90-Y082	1,471,292						22,122	671,328	52,759	152,352	450,691
CA-90-Y117	1,937,795						392,840	1,035,009	147,967	132,350	26,111
MTAP6059	100,000						18,334	13,433	5,088		
CA-03-0596	495,158							15		491,442	3,701
CA-90-Y136	1,404,025							378,326	323	968,205	51,248
CA-90-Y226	2,739,574							18,730	468,790	1,331,200	440,036
CA-03-0642	405,554									438,604	(33,049)
Subtotal		\$3,118,383	\$3,516,644	\$ 855,632	\$ 709,004	\$1,648,524	\$2,437,892	\$4,490,499	\$1,385,145	\$4,099,316	\$1,029,837

Continued

Long Beach Public Transportation Company

Grant Information Capital Grant History (continued) State Grants 1996 - 2005

Exhibit 20

State Grants	Authorized Amount	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Subtotal		\$3,118,383	\$3,516,644	\$ 855,632	\$ 709,004	\$1,648,524	\$2,437,892	\$4,490,499	\$1,385,145	\$4,099,316	\$1,029,837
TDA 96	4,072,000	157,017	890,997	2,392,335	417,032	55,480	27,975	33,548			
TDA 97	100,000		52,647	47,353							
TDA 99	792,000			721,159	70,840						
STA 99	231,234			136,371							
TDA 00	3,250,000				208,169	2,995,587					
TDA 01	468,185					333,185	133,860		1,130		
TDA 02	32,225						7,549		222,698		
TDA 03	655,624							384,298		41,010	(1,161)
STA 00	1,012,135				82,417	5,500					
STA 01	990,696					638,201	272,786	235,864	41,609	6,257	557
STA 02	1,341,400						807,476	530,452	57,677	(25,150)	27,391
STA 03	838,329							440	631,646	153,430	19,189
AQMD 03	684,837							684,837			
MSRC 05	335,453									330,453	
MTA8320											65,624
		\$3,275,400	\$4,460,288	\$4,152,850	\$1,487,462	\$5,676,477	\$3,687,538	\$6,359,938	\$2,339,905	\$4,605,316	\$1,141,437

Long Beach Public Transportation Company

Grant Information Capital Grant History Local Grants 1997 - 2006

Exhibit 21

Local Grants	Authorized Amount	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Prop A FY 93	\$ 277,245	\$ 15,864	\$ 37,012								
Prop A FY 95	35,000		2,273								
Prop A FY 96	1,300,000	1,172,567	74,253	\$ 34,976	\$ 4,432						
Prop A FY 97	1,185,000	980,627	346,019	433,536	1,183						
Prop A FY 98	1,207,000			270,776	168,047						
Prop A FY 99	1,933,150		423,659	1,437,076	418,476						
Prop A - FBD	309,000				16,118						
Prop C Security FY00	245,000				9,774		\$ 22,484				
Prop A FY 00	3,243,000				34,587	\$2,746,887	323,983	\$ 15,606			
Prop A FY 01	40,000					35,854					
Prop C FY 01	2,100,000						559,705	1,535,061			
Prop C Security FY 01	152,000									\$ 12,882	
Prop A FY 02	40,000						44,000				
Prop C Security FY 02	65,000						1,700	49,204	\$ 11,051	4,745	
Prop C Security FY 03	349,154								193,599	24,817	\$ 60,772
Prop C Security FY 04	923,452								5,674	825,606	36,957
Prop C - CA-90-Y271	2,375,547								8,960	1,199,967	388,360
Prop C FY 02	1,041,853								331,967	395,502	242,904
Prop C FY 03	1,123,797								130,606	592,344	61,441
Prop C-CA-03-0664	352,584									341,786	10,798
Prop C FY 04	923,452									203,569	164,860
Prop C Security FY 05	324,000									194,669	11,742
Prop C FY 05	1,324,200										382,558
Prop C-CA-90-Y391	2,934,372										101,084
		\$2,169,058	\$ 883,216	\$2,176,364	\$ 652,617	\$2,782,741	\$951,872	\$1,599,871	\$ 681,857	\$3,795,887	\$1,461,476

Long Beach Public Transportation Company

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OFFICE OF THE CITY AUDITOR
Long Beach, California

C-5

LAURA L. DOUD, CPA
City Auditor

February 6, 2007

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Recommendation to receive and file the Long Beach Transit Comprehensive Annual Financial Report and the Single Audit Reports and Grant Activity Reports for the fiscal year ending June 30, 2006.


DISCUSSION:

Transmitted herewith are the (1) Comprehensive Annual Financial Report, and (2) Single Audit Reports and Grant Activity Reports for the Long Beach Transit Company, a component unit of the City of Long Beach, for the year ending June 30, 2006.

SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,


LAURA L. DOUD
City Auditor

LLD/JDA/nb
Attachments



CITY OF LONG BEACH, CALIFORNIA

Single Audit Reports

Year ended September 30, 2006

CITY OF LONG BEACH, CALIFORNIA

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KPMG LLP
Suite 2000
355 South Grand Avenue
Los Angeles, CA 90071-1568

**Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

The Honorable Mayor and Members of the City Council
City of Long Beach, California:

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Long Beach, California (the City), as of and for the year ended September 30, 2006, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 28, 2007. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Airport Enterprise Fund, Parking Authority (subfund of Tidelands Fund), and Air Quality Improvement Fund (subfund of Transportation Fund), as described in our report on the City's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City in a separate letter dated June 28, 2007.

This report is intended solely for the information and use of the City of Long Beach, California's City Council and management, as well as federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

June 28, 2007



KPMG LLP
Suite 2000
355 South Grand Avenue
Los Angeles, CA 90071-1568

**Report on Compliance with Requirements Applicable to
Each Major Program and on Internal Control over Compliance
in Accordance with OMB Circular A-133**

The Honorable Mayor and Members of the City Council
City of Long Beach, California:

Compliance

We have audited the compliance of the City of Long Beach, California (the City), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement*, that are applicable to each of its major federal programs for the year ended September 30, 2006. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

As described in Findings 06-4, 06-6, and 06-7 in the accompanying schedule of findings and questioned costs, the City did not comply with requirements regarding Davis-Bacon Act and Subrecipient Monitoring, respectively, that are applicable to the Hazard Mitigation Grant Program (Finding 06-4) and Homeless Supportive Housing Program (Findings 06-6 and 06-7). Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to these programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2006. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as Findings 06-2, 06-3 and 06-5.

Internal Control over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the City's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as Findings 06-1 through 06-7.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider Findings 06-4, 06-6, and 06-7 to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Long Beach, California (the City), as of and for the year ended September 30, 2006, and have issued our report thereon dated June 28, 2007. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The supplementary information included in Exhibits 2 through 5 (pages 35 through 40) is presented for purposes of additional analysis and is not a required part of the City's basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on it.

This report is intended solely for the information and use of the City of Long Beach, California's City Council and management, as well as federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

June 28, 2007

CITY OF LONG BEACH
Schedule of Expenditures of Federal Awards
Year ended September 30, 2006

Federal Grantor Pass through Agency Program Title	Federal CFDA number	Grant ID number	Expenditures charged to grants
Department of Agriculture:			
State Dept of Health Services:			
** Women, Infants and Children	10.557	02-25682	\$ (279)
** Women, Infants and Children	10.557	05-45766	3,565,965
** Women, Infants and Children	10.557	05-45766	2,662
Total			<u>3,568,348</u>
** Children Nutrition Network	10.557	03-75498	(80,810)
** Children Nutrition Network	10.557	05-45516	656,800
Total			<u>575,990</u>
Total expenditures	10.557		<u>4,144,338</u>
State Dept of Education:			
Summer Food Service	10.559	19-81908V	233,780
Total			<u>233,780</u>
Department of Commerce:			
Economic Development Act	11.307	07-4 905046	593,313
Dept of Housing and Urban Development:			
CDBG Entitlement	14.218	B04-MC060522	5,714,304
CDBG Entitlement	14.218	B04-MC060522	5,142,759
Total			<u>10,857,063</u>
Emergency Shelter	14.231	S04-MC060522	165,367
Emergency Shelter	14.231	S05-MC060522	109,523
Total			<u>274,890</u>
** Homeless Supportive Housing SHP98	14.235	CA16B80-6001,2,3,4	45,221
** Homeless Supportive Housing SHP99	14.235	CA16B90-6001,2,4,5	54,783
** Homeless Supportive Housing SHP00	14.235	CA16B00-6002,3...11	159,661
** Homeless Supportive Housing SHP01	14.235	CA16B10-6002,3,4.11	467,376
** Homeless Supportive Housing SHP02	14.235	CA16B206-001,2, 3...8	1,010,259
** Homeless Supportive Housing SHP03	14.235	CA16B306-001,2,3...14	1,204,243
** Homeless Supportive Housing SHP04	14.235	CA16B406-001,2,3...24	1,434,601
** Homeless Supportive Housing SHP05	14.235	CA16B506-001,2,3...30	130,696
Total			<u>4,506,840</u>
Dept. of Housing and Urban Development:			
Shelter Plus Care	14.238	CA16C96-0301	50,627
Shelter Plus Care	14.238	CA16C906-006	57,921
Shelter Plus Care	14.238	CA16C006-001	71,391
Shelter Plus Care	14.238	CA16C406-024	114,572
Shelter Plus Care	14.238	CA16C506-029	11,864
Shelter Plus Care	14.238	CA16C506-030	24,831
Total			<u>331,206</u>

CITY OF LONG BEACH
Schedule of Expenditures of Federal Awards
Year ended September 30, 2006

Federal Grantor Pass through Agency Program Title	Federal CFDA number	Grant ID number	Expenditures charged to grants
Dept of Housing and Urban Development:			
HOME Program	14.239	M01-MC060518	\$ (188,182)
HOME Program	14.239	M01-MC060518	870
HOME Program	14.239	M02-MC060518	2,049,618
HOME Program	14.239	M03-MC060518	2,132,616
HOME Program	14.239	M04-MC060518	606,992
Total			4,601,914
Home Ownership Zone	14.246	HZ97-011	362,000
Economic Development Initiative	14.246	B-02-SP-CA-0071	75,000
Economic Development Initiative	14.246	B-04-SP-CA-0089	149,115
Total			586,115
Housing Assist-Disaster Voucher	14.N/A	CA068DV	60,129
Housing Asst Program – New	14.182	SF 504	1,007,955
** Housing Asst Program – Vouchers	14.871	SF 504	57,705,440
Total HAP expenditures			58,713,395
Lead-based Paint Hazard Control Hsng	14.900	CALHB0174-01	18,980
Lead-based Paint Hazard Control Hsng	14.900	CALHB0174-04	713,084
Total			732,064
Healthy Homes Initiative	14.901	CALHH0072-04	292,453
City of Los Angeles:			
Housing Opportunities for Persons with Aids	14.241	98256	329,042
Department of the Interior:			
Reclaimed Water System Expansion	15.504	00-FC-30-0051	287,167
Desalination Research and Development	15.506	02-FC-35-0053	804,869
UPARR MLK Park Pool Rehabilitation	15.919	06CTY16100101	348,428
UPARR Silverado Park Pool Rehab	15.919	06CTY19700201	740,746
Total			1,089,174
State Parks Department:			
Cesar Chavez Park Amphitheater	15.916	06-01474	2,960
Seaside Park Development	15.916	06-01554	341
Total			3,301
Department of Justice:			
** Urban Area Security Initiative (Port)	16.011	2004-EU-T30046	315,642
Coverdell	16.560	2005-DN-BX-0005	79,958
Byrne Discretionary	16.580	2005-DD-BX-1166	98,664
Local Law Enforcement Block Grant	16.592	2004-LB-BX-0981	257,534
COPS Technology Equipment	16.710	2004-CK-WX-0047	45,894
COPS Universal Hiring	16.726	2002-UL-WX-0062	2,062,837
Edward Bryne JAG	16.738	2005-DJ-BX-1190	168,362
State Office of Emergency Services:			
Domestic Preparedness Equipment	16.007	2003-035	2,643

CITY OF LONG BEACH
Schedule of Expenditures of Federal Awards
Year ended September 30, 2006

Federal Grantor Pass through Agency Program Title	Federal CFDA number	Grant ID number	Expenditures charged to grants
Department of Labor:			
Long Beach Community College:			
Wagner Peyser Const Apprent Pathways	17.207	R492684/CN 99637.6	\$ 18,615
State Employment Development Dept:			
Wagner Peyser Health Collaborative	17.207	R588729	71,527
Total expenditures	17.207		90,142
Long Beach Community College:			
WIA Const Apprenticeship Pathways	17.258	R592666/CN 99637.6	222,030
State Employment Development Dept.:			
South Bay Center for Counseling			
Petrochemical Career Pathways Prog	17.258	R659710	8,792
WIA Title I Health Collaborative	17.258	R588729	191,791
WIA Title I Nursing Educ Capacity	17.258	R692480	61,570
WIA Title I Adult Formula	17.258	R692480	2,012,085
WIA Title I Adult Formula	17.258	R760328	81,553
Total			2,346,999
WIA Title I Youth Formula	17.259	R692480	1,599,599
WIA Title I Youth Formula	17.259	R760328	36,592
Total			1,636,191
Disability Program Navigation	17.261	R692480	149,017
WIA Nat'l Emergency Transport	17.260	R485283	12,411
WIA Technology to Teachers	17.260	R588729	8,601
WIA Title I Dislocated Worker	17.260	R692480	306,495
WIA Title I Dislocated Worker	17.260	R692480	736,226
WIA Rapid Response	17.260	R692480	120,341
WIA Rapid Response	17.260	R692480	220,816
WIA Katrina Evacuees	17.260	R692480	9,187
WIA Hurricane Evacuees	17.260	R692480	2,016
WIA New Business Network	17.260	R692480	159,279
WIA Title I Dislocated Worker	17.260	R760328	45,240
WIA Rapid Response	17.260	R760328	65,288
Total			1,685,900
Total WIA expenditures			6,048,929
Department of Transportation:			
FAA Airport Improvement Proj	20.106	DTFA08-02-C-21568 23	104,400
FAA Airport Improvement Proj	20.106	DTFA08-04-C-21734 25	1,160,870
FAA Airport Improvement Proj	20.106	DTFA08-05-C-21946 26	996,009
FAA Airport Improvement Proj	20.106	DTFA08-06-C-22070 27	1,753,757
Total			4,015,036

CITY OF LONG BEACH
Schedule of Expenditures of Federal Awards
Year ended September 30, 2006

Federal Grantor Pass through Agency Program Title	Federal CFDA number	Grant ID number	Expenditures charged to grants
Department of Transportation:			
Port Security	20.401	DTMA1G02027	\$ 365,990
Port Security	20.401	DTMA1G02046	2,137
Total			368,127
Port Security Round 2	20.420	DTSA20-03-G-01091	1,095,718
State Dept of Transportation: TEA	20.205	STPL 07-5108	13,495,737
County of Los Angeles – M.T.A.:			
Three-Car Train Improvement	20.500	F402-800201-CN-001/002	564,792
Train Signs	20.507	F402-800201-DT-04-01	232,555
State Office of Traffic Safety:			
Family Safety Initiative	20.600	OPO601	131,120
Driving While Impaired Impact Proj	20.600	AL0670	109,116
Sobriety Checkpoint	20.600	AM05087	11,554
Interagency Bicycle and Pedestrian Safety	20.600	PS0506	326,593
Pedestrian Countdown Heads	20.600	PS0507	69,821
Seatbelt Compliance Campaign	20.600	IN61929	72,219
Total expenditures	20.600		720,423
State Office of Emergency Services:			
Hazardous Material Emer Preparedness	20.703	3033-110, OES#037-4300	8,719
Nat'l Foundation on the Arts and Humanities			
California State Library:			
Library Services Technology Act	45.310	40-6449	710
Total			710
Environmental Protection Agency:			
Studies, Investigation and Spcl Pur Grnt	66.606	XP-97993501-0	240,695
State Dept of Health Services:			
Beach Water Quality and Public Notification	66.472	06-55292	4,425
Total			4,425
Department of Energy:			
Increasing Heavy Oil Reserves	81.089	DE-FC22-95BC14939	167,865
Department of Education:			
State Dept of Education:			
Evenstart Family Literacy	84.213	05-06-14331-G156-01	174,593
Evenstart Family Literacy	84.213	06-07-14331-G156-01	6,233
Total			180,826
Dept of Health and Human Services			
Metropolitan Medical Response Sys	N/A	282-99-0031	1,161
Metropolitan Medical Response Sys	N/A	233-03-0094	119,209

CITY OF LONG BEACH
Schedule of Expenditures of Federal Awards
Year ended September 30, 2006

Federal Grantor Pass through Agency Program Title	Federal CFDA number	Grant ID number	Expenditures charged to grants
Dept of Health and Human Services			
County of Los Angeles:			
Bioterrorism Preparedness	93.283	H-701583	\$ 1,456,103
Bioterrorism Preparedness	93.283	H-701583	234,866
Total			1,690,969
State Dept of Health Services			
Childhood Lead Poisoning Prevention	93.197	03-27851	(1)
Childhood Lead Poisoning Prevention	93.197	05-45143	213,178
Childhood Lead Poisoning Prevention	93.197	05-45143	75,000
Total			288,177
Immunization Subvention	93.268	05-45409	165,339
Immunization Subvention	93.268	06-55180	50,000
Total			215,339
Childhood Health and Disability	93.778	CHDP-EPSDT	14,536
Childhood Health and Disability	93.778	CHDP-EPSDT	436,459
Childhood Health and Disability	93.778	CHDP-EPSDT	133,000
Total			583,995
Medical Gateway	93.778	CHDP-EPSDT	(94,477)
Medical Gateway	93.778	CHDP-EPSDT	211,399
Medical Gateway	93.778	CHDP-EPSDT	58,395
Total			175,317
Children in Foster Care	93.778	HEPCFC-FY 04-06	86,709
Children in Foster Care	93.778	HEPCFC-FY 05-07	25,600
Total			112,309
Nursing MAA Claiming	93.778	—	394,298
Nursing MAA Claiming	93.778	—	150,000
Total			544,298
Nursing TCM Claiming	93.778	—	43,813
Nursing TCM Claiming	93.778	—	73,506
Nursing TCM Claiming	93.778	—	12,004
Total			129,323
Targeted Case Mgmt – Community	93.778	—	(28,545)
MAA / TCM Administration	93.778	—	24,094
MAA / TCM Administration	93.778	—	14,000
Total			38,094
Total expenditures	93.778		1,554,791
Maternal and Child Health Svcs Allocation	93.994	200460	(5,008)
Maternal and Child Health Svcs Allocation	93.994	200560	252,872
Maternal and Child Health Svcs Allocation	93.994		120,000
Total			367,864

CITY OF LONG BEACH
Schedule of Expenditures of Federal Awards
Year ended September 30, 2006

Federal Grantor Pass through Agency Program Title	Federal CFDA number	Grant ID number	Expenditures charged to grants
Dept of Health and Human Services:			
State Dept of Health Services:			
MCH Black Infant Health	93.994	200460	\$ 5,393
MCH Black Infant Health	93.994	200560	439,536
MCH Black Infant Health	93.994		95,000
Total			539,929
Total expenditures	93.994		907,793
AIDS Community Ed and Prevention	93.940	04-35356	(194,967)
AIDS Community Ed and Prevention	93.940	04-35356 PREV 04-59	443,062
AIDS Community Ed and Prevention	93.940	04-35356 PREV 04-59	63,996
Total			312,091
Alternative Test Sites	93.940	04-35356 HIV 04-59	2,713
Alternative Test Sites	93.940	04-35356 HIV 04-59	106,874
Alternative Test Sites	93.940	04-35356 HIV 04-59	29,058
Total			138,645
Early Intervention Project	93.940	04-35356 EIP 04-59	340,946
Early Intervention Project	93.940	04-35356 EIP 04-59	115,640
Total			456,586
AIDS Surveillance	93.940	04-35356 SP 04-59	163,443
AIDS Surveillance	93.940	04-35356 SP 04-59	65,339
Total			228,782
Testing Outreach Education	93.940	04-35356 PREV 04-59	76,867
Testing Outreach Education	93.940	04-35356 PREV 04-59	22,933
Total			99,800
HIV High Risk Behavior	93.940	04-35356 PREV 04-59	251,115
HIV High Risk Behavior	93.940	04-35356 PREV 04-59	21,514
Total			272,629
County of Los Angeles:			
HIV/AIDS Education and Risk Reduction	93.940	212369-1	(3,266)
HIV/AIDS Education and Risk Reduction	93.940	H701036	120,174
HIV/AIDS Education and Risk Reduction	93.940	H701036	36,143
Total			153,051
Total expenditures	93.940		1,661,584
Family Support	93.556	29755	24,618
Family Support	93.556	29755	5,973
Total			30,591
Family Services / CNA	93.556	70906	38,996
Family Services / CNA	93.556	70906	18,577
Total			57,573
Total expenditures	93.556		88,164

CITY OF LONG BEACH
Schedule of Expenditures of Federal Awards
Year ended September 30, 2006

Federal Grantor Pass through Agency Program Title	Federal CFDA number	Grant ID number	Expenditures charged to grants
Dept of Health and Human Services:			
County of Los Angeles:			
AIDS Case Management	93.915	H210813-5	\$ 15,637
AIDS Case Management	93.915	H210813-6	106,360
AIDS Case Management	93.915	H210813-6	84,398
Total			206,395
AIDS EIP Outpatient Medical	93.915	H209210-5	18,361
AIDS EIP Outpatient Medical	93.915	H209210-6	37,063
AIDS EIP Outpatient Medical	93.915	H209210-6	40,854
Total			96,278
Total expenditures	93.915		302,673
Dept of Homeland Security:			
Assistance to Firefighters	97.044	EMW-2005-FG-19340	708,406
TSA Ports Grant Round 4	97.056	HSTS04-04-G-GPS575	12,896
TSA-POLA Operation Safe Commerce	97.058	2300	9,796
State Office of Homeland Security:			
Enhancement of Emergency Operations	97.004	2004-GE-T4-0045	476,554
** Urban Area Security Initiative Phase 2	97.008	2003-EU-T3-0023	1,042,423
** Urban Area Security Initiative Phase 3	97.008	2004-TU-T4-0014	6,225,426
** Urban Area Security Initiative Phase 4	97.008	2005-15	1,976,239
Total			9,244,088
State Homeland Security Grant	97.073	—	414,186
Law Enforcement Terrorism Prev'n Prgm	97.074	—	74,371
2005 Winter Storm (January)	97.036	FEMA 1577	16,357
2005 Winter Storm (February)	97.036	FEMA 1585	43,601
Total			59,958
** Hazard Mitigation Pub Safety Bldg	97.039	FEMA 1008 HMG 3132	3,286,360
Housing Assist-Katrina Disaster	97.N/A	CA068KD	7,884
Total federal expenditures			\$ 139,831,645

** Denotes major program.

See accompanying notes to schedule of expenditures of federal awards and independent auditors' report on compliance with requirements applicable to each major program and on internal control over compliance in accordance with OMB Circular A-133.

CITY OF LONG BEACH, CALIFORNIA

Notes to Schedule of Expenditures of Federal Awards

Year ended September 30, 2006

(1) General

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance programs of the City of Long Beach, California (the City). All federal financial assistance received directly from federal agencies, as well as federal financial assistance passed through to the City by other government agencies, has been included in the accompanying schedule. The City's reporting entity is defined in note 1 of the notes to the City's basic financial statements.

(2) Basis of Accounting

The accompanying Schedule of Expenditures of Federal awards is presented using the modified-accrual basis of accounting. Such basis of accounting is described in note 1 of the notes to the City's basic financial statements.

(3) Relationship to Federal Financial Reports

Total expenditure amounts reported in the accompanying Schedule of Expenditures of Federal Awards agree with the total expenditure amounts reported in the related federal financial reports.

(4) Food Instruments/Vouchers

Food instruments/vouchers expenditures represent the value of the Women, Infants and Children (WIC) food instruments as communicated by the State Department of Health Services distributed during the year. The food instruments/vouchers totaled \$18,802,148 but do not represent cash expenditures in the City's basic financial statements for the year ended September 30, 2006.

CITY OF LONG BEACH, CALIFORNIA

Schedule of Findings and Questioned Costs

Year ended September 30, 2006

(1) Summary of Auditors' Results

(a) Basic Financial Statements

The type of auditors' report issued on the basic financial statements: **Unqualified opinion.**

Internal control over financial reporting:

- Material weaknesses identified in internal control over financial reporting: **None noted.**
- Reportable conditions identified in internal control over financial reporting that are not considered to be material weaknesses: **None reported.**

Noncompliance which is material to the basic financial statements: **None noted.**

(b) Federal Awards

Internal control over major programs:

- Material weaknesses identified in internal control over major programs: **Yes, see Findings 06-4, 06-6 and 06-7.**
- Reportable conditions in internal control over major programs that are not considered to be material weaknesses: **Yes, see Findings 06-1, 06-2, 06-3 and 06-5.**

The type of report issued on compliance for major programs:

- Women, Infants, and Children/Children Nutrition Network – Unqualified
- Housing Assistance Program-Voucher – Unqualified
- Urban Areas Security Initiative – Unqualified
- Hazard Mitigation Grant Program – Qualified
- Homeless Supportive Housing Program – Qualified

Any audit findings which are required to be reported in accordance with Section 510(a) of OMB Circular A-133: **Yes, see Findings 06-1 through 06-7.**

The following programs have been identified as major programs:

- Department of Agriculture:
 - State Department of Health Services:
 - CFDA 10.557 – Women, Infants, and Children/Children Nutrition Network
- Department of Housing and Urban Development:
 - CFDA 14.871 – Housing Assistance Program-Voucher
 - CFDA 14.235 – Homeless Supportive Housing Program

CITY OF LONG BEACH, CALIFORNIA

Schedule of Findings and Questioned Costs

Year ended September 30, 2006

- Department of Justice:
 - CFDA 16.011 – Urban Areas Security Initiative Program
- Department of Homeland Security
 - State Office of Homeland Security
 - CFDA 97.008 – Urban Areas Security Initiative Program
 - CFDA 97.039 – Hazard Mitigation Grant Program

Dollar threshold used to distinguish between Type A and Type B programs: \$3,000,000.

Auditee qualified as a low-risk auditee under Section 0.530 of OMB Circular A-133: No.

**(2) Findings Relating to the Basic Financial Statements
Reported in Accordance with *Government Auditing Standards***

None noted.

CITY OF LONG BEACH, CALIFORNIA

Schedule of Findings and Questioned Costs

Year ended September 30, 2006

(3) Summary of Current Year Findings and Recommendations Relating to Federal Awards

Finding 06-1 – Suspension and Debarment

Program Information

Federal Programs:

Urban Areas Security Initiative Program (UASI Program), CFDA Nos. 97.008 and 16.011

Hazard Mitigation Grant Program (HMG Program), CFDA No. 97.039

Federal Grant Award Numbers and Years:

UASI Program

2004-EU-T3-0046	December 1, 2003 – November 30, 2004
2003-23, OES ID #037-43000	July 1, 2003 – December 31, 2006
2004-14, OES ID #037-43000	December 1, 2003 – February 28, 2007
2005-15, OES ID #037-43000	October 1, 2004 – March 31, 2007

HMG Program

FEMA-DR-1008-CA, HMGP 1008-3132 August 19, 1998 – March 16, 2005

Federal Agency:

UASI Program – U.S. Department of Homeland Security, U.S. Department of Justice

HMG Program – U.S. Department of Homeland Security

Pass-through Agency:

UASI and HMG Programs – U.S. State Office of Homeland Security

Specific Requirement

UASI and HMG Programs

TITLE 28-JUDICIAL ADMINISTRATION, CHAPTER I DEPARTMENT OF JUSTICE, PART 66-UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS, Subpart C-Post-Award Requirements, Sec. 66.35 and TITLE 44-EMERGENCY MANAGEMENT AND ASSISTANCE, CHAPTER I – FEDERAL EMERGENCY MANAGEMENT AGENCY, PART 13 – UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS, Subpart C – Post-Award Requirements, Sec. 13.35:

CITY OF LONG BEACH, CALIFORNIA

Schedule of Findings and Questioned Costs

Year ended September 30, 2006

Grantees and subgrantees must not make any award or permit any award (subgrant or contract) at any tier to any party which is debarred or suspended or is otherwise excluded from or ineligible for participation in Federal assistance programs under Executive Order 12549, "Debarment and Suspension."

OMB A-133 Compliance Supplement

Non-Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. Under nonprocurement suspension and debarment rules in effect prior to November 26, 2003, covered transactions included procurement contracts for goods or services equal to or in excess of \$100,000 (the small purchase or simplified acquisition threshold). A change in the nonprocurement suspension and debarment rule took effect on November 26, 2003. As of that date "covered transactions" include those procurement contracts for goods and services awarded under a nonprocurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed \$25,000 or meet certain other specified criteria. §__.220 of the governmentwide nonprocurement debarment and suspension common rule contains those additional limited circumstances. All nonprocurement transactions (i.e., subawards to subrecipients), irrespective of award amount, are considered covered transactions—this was the case before November 26, 2003, and was not changed by the revised rules.

Under rules in effect prior to November 26, 2003, contractors receiving individual awards for \$100,000 or more and all subrecipients must certify that the organization and its principals are not suspended or debarred. Effective November 26, 2003, when a nonfederal entity enters into a covered transaction with an entity at a lower tier, the nonfederal entity must verify that the entity is not suspended or debarred or otherwise excluded. This verification may be accomplished by checking the *Excluded Parties List System (EPLS)* maintained by the General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity (§__.300).

Condition

UASI and HMG Programs

We inspected all procurement contracts, of the UASI and HMG programs' covered transactions, and determined that the vendors and subrecipients were not federally suspended or debarred. However, the City did not have internal controls in place prior to August 2006 to ensure that vendors and subrecipients receiving federal funds were not federally suspended or debarred.

Questioned Costs

None

Cause and Effect

At the time of the UASI and HMG contract subawards, Management indicated that the City was not aware that contractors receiving individual federal awards for \$25,000 and all subrecipients could not be federally suspended or debarred. As such, the City had not yet implemented internal controls to comply with federal procurement, suspension and debarment requirements.

CITY OF LONG BEACH, CALIFORNIA

Schedule of Findings and Questioned Costs

Year ended September 30, 2006

Recommendation

We recommend that the City continue to verify, prior to making any awards or permitting any awards (subgrant or contract), that all contractors and subrecipients receiving federal awards for \$25,000 or more are not federally suspended or debarred. The City should maintain documentation of such verification in their procurement files.

Views of responsible officials and planned corrective actions

This finding was previously noted by KPMG in the City of Long Beach's Single Audit for FY 2005. In August 2006, the City instituted numerous internal control procedures to comply with Federal requirements. The Department of Financial Management worked with the Federal government to obtain and download a copy of the EPLS database and match it to all existing vendors in FAMIS/ADPICS and was able to confirm that Federal monies were not paid to vendors on the debarred and suspended list. On September 8, 2006, the City of Long Beach's Department of Financial Management drafted an amended Financial Policies and Procedures 5-1 (FPP5-1) *Policy for Grants Processing* to include specific reference to the Federal Excluded Parties List System and the need for Departments to check this list during the vendor selection process for the purpose of confirming vendors' eligibility prior to awarding new contracts. The City has done matches subsequent to September 2006 and will continue to do future matches on a monthly or quarterly basis, as time permits.

As an added measure, we also amended the City's Accounting and Purchasing procedures to require that new vendors are checked against the EPLS database before they are issued a vendor ID or added to the City's financial system. The City will also implement a mandatory training program appropriate for all employees involved in administering grants to achieve improved productivity and efficiency. Lastly, to assure full compliance, the City Controller will work closely with the City's Purchasing Agent to further amend the City's purchasing processes so that all future procurement contracts that are equal to or exceeding \$25,000 include language, which would officially certify that contracting entities and/or their principals are not suspended or debarred. In the case of existing vendors actively using federal monies, the City Controller will work with the City Attorney's Office and the City's Purchasing Agent on the feasibility of issuing contract addendums to comply with Suspension and Debarment requirements.

It is important to note that KPMG and the City staff did not find that the City of Long Beach contracted with any suspended or debarred parties during fiscal years 2005 and 2006. Although the amended FPP5-1 *Policy for Grants Processing* is still in the distribution phase, appropriate policies and internal control procedures indicated therein are now in place and currently being implemented.

CITY OF LONG BEACH, CALIFORNIA

Schedule of Findings and Questioned Costs

Year ended September 30, 2006

Finding 06-2 – Reporting

Program Information

Federal Program:

Urban Areas Security Initiative Program (UASI Program), CFDA Nos. 97.008 and 16.011

Federal Grant Award Numbers and Years:

2004-EU-T3-0046	December 1, 2003 – November 30, 2004
2003-23, OES ID #037-43000	July 1, 2003 – December 31, 2006
2004-14, OES ID #037-43000	December 1, 2003 – February 28, 2007
2005-15, OES ID #037-43000	October 1, 2004 – March 31, 2007

Federal Agency:

U.S. Department of Homeland Security, U.S. Department of Justice

Pass-through Agency:

State Office of Homeland Security

Specific Requirement

TITLE 28 – JUDICIAL ADMINISTRATION, CHAPTER I – DEPARTMENT OF JUSTICE, PART 66_UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS, Subpart C_Post-Award Requirements, Sec. 66.42 Retention and access requirements for records:

- (a) Applicability. (1) This section applies to all financial and programmatic records, supporting documents, statistical records, and other records of grantees or subgrantees which are:
 - (i) Required to be maintained by the terms of this part, program regulations or the grant agreement, or
 - (ii) Otherwise reasonably considered as pertinent to program regulations or the grant agreement.
- (b) Length of retention period. (1) Except as otherwise provided, records must be retained for three years from the starting date specified in paragraph (c) of this section.
- (c) Starting date of retention period – (1) General. When grant support is continued or renewed at annual or other intervals, the retention period for the records of each funding period starts on the day the grantee or subgrantee submits to the awarding agency its single or last expenditure report for that period. However, if grant support is continued or renewed quarterly, the retention period for each year's records starts on the day the grantee submits its expenditure report for the last quarter of the Federal fiscal year. In all other cases, the retention period starts on the day the grantee submits its

CITY OF LONG BEACH, CALIFORNIA

Schedule of Findings and Questioned Costs

Year ended September 30, 2006

final expenditure report. If an expenditure report has been waived, the retention period starts on the day the report would have been due.

Further, the Homeland Security Grant Program, California *Supplement to Federal Program Guidelines and Application Kit*, states, "Subgrantees must prepare and submit performance reports to the state for the duration of the grant performance period, or until all grant activities are completed and the grant is formally closed. Subgrantees must complete a "Biannual Strategy Implementation Report (BISR) using the Department of Health Services on-line Grant Management System, and may also be required to submit additional information and data requested by the State. Failure to submit performance reports could result in grant reduction, termination or suspension."

Condition

The City is required to submit a BISR semi-annually for each grant award under the UASI program. We inspected a total of five BISR reports, representing 100% of the BISR report population during the current year. However, management could not provide supporting documentation to verify the accuracy of the information reported to the pass-through agency.

Questioned Costs

None

Cause and Effect

Management indicated that information and amounts on the federal reports were obtained from the various agencies under the program and then adjusted, when necessary, based on more recent and current information available at the time the report was submitted. These calculations and amounts were not fully documented or traceable to any worksheet or other supporting documentation maintained by the City. Failure to properly maintain underlying supporting documents, worksheets and/or calculations to support reports submitted to the federal government may result in inaccurate federal reporting.

Recommendation

We recommend that the City strengthen their internal control process to ensure that underlying supporting documentation and/or supporting calculations for the program's reports are retained.

Views of responsible officials and planned corrective actions

The Disaster Management Division of the City's Fire Department will strengthen internal control processes to ensure that underlying documentation and/or supporting calculations for the program's reports are maintained and kept on file. Moreover, the City's Department of Financial Management will monitor this activity to ensure compliance with Federal requirements and the City of Long Beach's Financial Policy and Procedure FPP5-1, *Policy for Grants Processing* which states in Section V.E.1 and 2(c) under Grants Administration:

1. The initiating department shall have primary responsibility for grant administration. Staff for the initiating department shall serve as the liaison with the granting agency, coordinate activities necessary for successful program performance, maintain program performance data, cause the preparation of all reports required by the granting agency and forward the reports to the granting

CITY OF LONG BEACH, CALIFORNIA

Schedule of Findings and Questioned Costs

Year ended September 30, 2006

agency. The initiating department shall contact Financial Management, Grants Accounting Division, for assistance in setting up the necessary financial records, coding and procedures in support of the grant. The maintenance of these records will be coordinated by Grants Accounting. The initiating department may delegate a portion of its financial record-keeping responsibility to the Grants Accounting Division by mutual agreement.

2. The initiating department shall take the following action:

Tracking and recording all expenditures and ensuring that only those expenditures that are eligible under the terms of the grant are charged against the grant.

Moreover, the City will implement a mandatory training program appropriate for all employees involved in administering grants, a move that is intended to achieve improved productivity and efficiency.

CITY OF LONG BEACH, CALIFORNIA

Schedule of Findings and Questioned Costs

Year ended September 30, 2006

Finding 06-3 – Procurement

Program Information

Federal Program:

Hazard Mitigation Grant Program, CFDA No. 97.039

Federal Grant Award Number and Years:

FEMA-DR-1008-CA, HMGP 1008-3132 August 19, 1998 – March 16, 2005

Federal Agency:

U.S. Department of Homeland Security

Pass-through Agency:

State Office of Homeland Security

Specific Requirement

Local governments must follow procurement procedures that conform to State and federal laws and regulations and standards identified in the A 102 Common Rule.

TITLE 44 – EMERGENCY MANAGEMENT AND ASSISTANCE, CHAPTER I – FEDERAL EMERGENCY MANAGEMENT AGENCY, DEPARTMENT OF HOMELAND SECURITY, PART 13_UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS, Subpart C_Post-Award Requirements, Sec. 13.36:

- (a) States. When procuring property and services under a grant, a State will follow the same policies and procedures it uses for procurements from its non-Federal funds. The State will ensure that every purchase order or other contract includes any clauses required by Federal statutes and executive orders and their implementing regulations. Other grantees and subgrantees will follow paragraphs (b) through (i) in this section.
- (b) Procurement standards. (1) Grantees and subgrantees will use their own procurement procedures which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this section.
- (f) Contract cost and price. (2) Grantees and subgrantees will negotiate profit as a separate element of the price for each contract in which there is no price competition and in all cases where cost analysis is performed. To establish a fair and reasonable profit, consideration will be given to the complexity of the work to be performed, the risk borne by the contractor, the contractor's investment, the amount of subcontracting, the quality of its record of past performance, and industry profit rates in the surrounding geographical area for similar work.

CITY OF LONG BEACH, CALIFORNIA

Schedule of Findings and Questioned Costs

Year ended September 30, 2006

- (i) Contract provisions. A grantee's and subgrantee's contracts must contain provisions in paragraph (i) of this section. Federal agencies are permitted to require changes, remedies, changed conditions, access and records retention, suspension of work, and other clauses approved by the Office of Federal Procurement Policy.
- (4) Compliance with the Copeland "Anti-Kickback" Act (18 U.S.C. 874) as supplemented in Department of Labor regulations (29 CFR Part 3).
(All contracts and subgrants for construction or repair)
- (7) Notice of awarding agency requirements and regulations pertaining to reporting.
- (8) Notice of awarding agency requirements and regulations pertaining to patent rights with respect to any discovery or invention which arises or is developed in the course of or under such contract.
- (10) Access by the grantee, the subgrantee, the Federal grantor agency, the Comptroller General of the United States, or any of their duly authorized representatives to any books, documents, papers, and records of the contractor which are directly pertinent to that specific contract for the purpose of making audit, examination, excerpts, and transcriptions.
- (13) Mandatory standards and policies relating to energy efficiency which are contained in the state energy conservation plan issued in compliance with the Energy Policy and Conservation Act (Pub. L. 94-163, 89 Stat. 871).

Condition

The City's procurement policies and procedures do not include the required information noted above in 44CFR Section 13.36, Subsections b-1, f-2, i-4, i-7 and i-8 and i-10 and i-13.

Questioned Costs

None

Cause and Effect

The City's Department of Public Works follows the Cal-Trans Procurement Policy. However, the Cal-Trans Procurement Policy does not include all required information noted in 44CFR Section 13.36, resulting in noncompliance with federal procurement guidelines.

Recommendation

We recommend that the City's procurement policies and procedures, when procuring goods and services with federal funds, meet federal procurement requirements as outlined in 44CFR Section 13.36.

Views of responsible officials and planned corrective actions

The City's Department of Public Works and Department of Financial Management will work together to ensure compliance with A 102 Common Rule 44CFR Section 13.36, Subsections b-1, f-2, i-4, i-7 and i-8 and i-10 through i-13 Post-Award Requirements. The Department of Public Works' current policy is to follow the Cal-Trans Procurement Policy. The departments will review the Cal-Trans Policy to assure it

CITY OF LONG BEACH, CALIFORNIA

Schedule of Findings and Questioned Costs

Year ended September 30, 2006

adheres to all the Federal requirements. The Department of Financial Management will work closely with the Department of Public Works in monitoring their procurement policy to ensure compliance in all contracts. The Department of Financial Management will also amend the City of Long Beach's Financial Policy and Procedure FPP5-1, Policy for Grants Processing to include language under "Section D. Grant Notification, to clearly explain the procurement policy for Federal grants.

Moreover, the City will implement a mandatory training program appropriate for all employees involved in administering grants, a move that is intended to achieve improved productivity and efficiency.

CITY OF LONG BEACH, CALIFORNIA

Schedule of Findings and Questioned Costs

Year ended September 30, 2006

Finding 06-4 – Davis Bacon Payroll Certification

Program Information

Federal Program:

Hazard Mitigation Grant Program, CFDA No. 97.039

Federal Grant Award Number and Years:

FEMA-DR-1008-CA, HMGP 1008-3132 August 19, 1998 – March 16, 2005

Federal Agency:

U.S. Department of Homeland Security

Pass-through Agency:

State Office of Homeland Security

Specific Requirement

TITLE 29-LABOR, PART 3 CONTRACTORS AND SUBCONTRACTORS ON PUBLIC BUILDING OR PUBLIC WORK FINANCED IN WHOLE OR IN PART BY LOANS OR GRANTS FROM THE UNITED STATES, Sec. 3.3, Weekly statement with respect to payment of wages:

- (a) As used in this section, the term employee shall not apply to persons in classifications higher than that of laborer or mechanic and those who are the immediate supervisors of such employees.
- (b) Each contractor or subcontractor engaged in the construction, prosecution, completion, or repair of any public building or public work, or building or work financed in whole or in part by loans or grants from the United States, shall furnish each week a statement with respect to the wages paid each of its employees engaged on work covered by this part 3 and part 5 of this chapter during the preceding weekly payroll period. This statement shall be executed by the contractor or subcontractor or by an authorized officer or employee of the contractor or subcontractor who supervises the payment of wages, and shall be on form WH 348, "Statement of Compliance", or on an identical form on the back of WH 347, "Payroll (For Contractors Optional Use)" or on any form with identical wording. Sample copies of WH 347 and WH 348 may be obtained from the Government contracting or sponsoring agency, and copies of these forms may be purchased at the Government Printing Office.
- (c) The requirements of this section shall not apply to any contract of \$2,000 or less.

Condition

We selected three of the four construction contracts to review for compliance with the Davis Bacon Act requirements. Of the 15 certified payrolls and 60 employees selected for testwork, management was not able to provide documentation to support that the contractors submitted 10 certified payrolls and that the

CITY OF LONG BEACH, CALIFORNIA

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contractors had paid 40 of their employees the prevailing labor wages in compliance with the Davis Bacon Act.

Questioned Costs

Unknown

Cause and Effect

Management indicated that this finding is attributed to lack of document retention. Lack of documentation (i.e. certified payrolls) to support that all laborers and mechanics employed by contractors are paid, at a minimum, the prevailing labor wages at the time of the award could result in noncompliance with federal requirements.

Recommendation

We recommend that the City implement policies and procedures that require all construction contractors federally funded and with contract amounts over \$2,000 to periodically submit to the City a copy of the payroll and a statement of compliance with the Davis Bacon Act. Further, we recommend that the City retain all documentation supporting their compliance with the Davis Bacon Act requirements pertaining to certified payrolls and prevailing labor wages.

Views of responsible officials and planned corrective actions

The City's Department of Financial Management will work closely with the Department Public Works to ensure compliance with the Davis Bacon Act. The Department of Public Works will document their adherence to the federal policy on all construction contracts federally funded with payroll expenditures over \$2,000. All documentation will be permanently kept with the project documentation within the Department of Public Works. The Department of Financial Management will require a certification from the Department of Public Works that the documentation required to conform with the Davis Bacon Act has been reviewed and filed within the Department of Public Works prior to any invoice being processed for a federally funded construction project.

Moreover, the City will implement a mandatory training program appropriate for all employees involved in administering grants, a move that is intended to achieve improved productivity and efficiency.

CITY OF LONG BEACH, CALIFORNIA

Schedule of Findings and Questioned Costs

Year ended September 30, 2006

Finding 06-5 – Eligibility

Program Information

Federal Program:

Homeless Supportive Housing Program, CFDA No. 14.235

Federal Award Numbers and Years

Award Numbers	Award Dates
CA16B106-004	August 1, 2003 – July 31, 2006
CA16B506-022	August 1, 2006 – July 31, 2007
CA16B306-008	December 1, 2004 – November 30, 2005
CA16B306-007	December 1, 2004 – November 30, 2005
CA16B406-012	February 1, 2005 – January 31, 2006
CA16B406-013	April 1, 2005 – March 31, 2006
CA16B406-003	April 1, 2005 – March 31, 2006
CA16B006-004	November 1, 2001 – October 31, 2006
CA16B406-004	December 1, 2005 – November 30, 2006
CA16B406-010	December 1, 2005 – November 30, 2006
CA16B506-010	April 1, 2006 – March 31, 2007
CA16B106-010	December 1, 2003 – November 30, 2007
CA16B406-015	June 1, 2005 – May 31, 2006
CA16B906-008	June 1, 2001 – October 31, 2005
CA16B006-009	February 1, 2002 – January 31, 2006
CA16B506-019	June 1, 2006 – May 31, 2007

Federal Agency:

U.S. Department of Housing and Urban Development

Specific requirement

TITLE 24 – HOUSING AND URBAN DEVELOPMENT, CHAPTER V – OFFICE OF ASSISTANT SECRETARY FOR COMMUNITY PLANNING AND DEVELOPMENT, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT, PART 583_SUPPORTIVE HOUSING PROGRAM, Subpart A_General, Sec. 583.5 Definitions:

Homeless person means an individual or family that is described in section 103 of the McKinney Act (42 U.S.C. 11302).

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Year ended September 30, 2006

Per Title IV, Subtitle C, Section 103 of the McKinney-Vento Homeless Assistance Act (42 USC 11301), a homeless individual or homeless family includes: (1) an individual who lacks a fixed, regular, and adequate nighttime residence; and (2) an individual who has primary nighttime residence that is:

- a) a supervised publicly or privately operated shelter designed to provide temporary living accommodations (including welfare hotels, congregate shelters, and transitional housing for the mentally ill);
- b) an institute that provides a temporary residence for individuals intended to be institutionalized; or
- c) a public or private place not designated for, or ordinarily used as, a regular sleeping accommodation for human beings.

Condition

During procedures performed over the City's eligibility requirements, we noted that the City has established controls over the review of the client's eligibility files through a random quality control inspection. However, no actual inspections were made since April 2006.

Furthermore, out of the 60 client files tested for eligibility, management was unable to provide two of the client files requested.

Questioned Costs

None

Cause and Effect

Management indicated that the lack of the eligibility quality control review since April 2006 is attributed to staff turnover. Further, management states that there are no eligibility files for the two clients in question because they were not in fact program clients, even though they were in the City's eligibility database. However, management was not able to provide documentation to support that the two clients in question were not program clients.

The lack of eligibility quality control review and eligibility document retention may result in the City's noncompliance with federal eligibility requirements.

Recommendation

We recommend that the City ensure that policies and procedures in place over the eligibility requirement are implemented and are operating effectively. Further, eligibility determinations and related supporting documents should also be properly documented and retained.

Views of responsible officials and planned corrective actions

The City's Human and Social Services Bureau does have a Quality Assurance Process for the Multi Service Center (MSC) and is implemented by the MSC Coordinator. The position has been vacant since April 2006 and was being implemented prior to the vacancy. The position has been filled and the City fully intends to reinstate the Quality Assurance Process when the new MSC Coordinator starts on July 16, 2007.

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The Financial Management Department will work with the program staff of the Health Department to develop an approach in accomplishing the task of providing sufficient quality control review that are up to the standards required by the federal agency during all staffing levels. Moreover, the City will implement a mandatory training program appropriate for all employees involved in administering grants, a move that is intended to achieve improved productivity and efficiency.

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Year ended September 30, 2006

Finding 06-6 – Subrecipient Monitoring – During-the-Award Monitoring

Program Information

Federal Program:

Homeless Supportive Housing Program, CFDA No. 14.235

Federal Award Numbers and Years

Awards Numbers	Award Dates
CA16B406-007	October 1, 2005 – September 30, 2006
CA16B406-014	April 1, 2005 – March 31, 2006
CA16B506-005	April 1, 2006 – March 31, 2007
CA16B906-003	January 1, 2002 – December 31, 2005
CA16B406-021	January 1, 2006 – January 31, 2007
CA16B006-007	June 1, 2002 – May 31, 2007
CA16B406-018	October 1, 2005 – September 30, 2007
CA16B306-006	July 1, 2004 – June 30, 2006
CA16B406-023	July 1, 2006 – January 31, 2008
CA16B106-011	May 1, 2003 – April 30, 2006
CA16B506-009	May 1, 2006 – April 30, 2007
CA16B406-009	February 1, 2005 – January 31, 2006
CA16B506-008	February 1, 2006 – January 31, 2007

Federal Agency:

U.S. Department of Housing and Urban Development

Specific Requirement:

TITLE 24 – HOUSING AND URBAN DEVELOPMENT, PART 85 ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS, Subpart C Post-Award Requirements, Sec. 85.40, Monitoring and reporting program performance:

- (a) Monitoring by grantees. Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity.

Condition

The City granted Homeless Supportive Housing Program subawards to 14 subrecipients during the fiscal year under audit. The subrecipients may determine eligibility of potential participants and also provide emergency shelter, transitional and/or permanent housing in conjunction with supportive services to homeless individuals. The City did not monitor 5 of the 14 subrecipients' compliance with the federal eligibility requirements.

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Schedule of Findings and Questioned Costs

Year ended September 30, 2006

Questioned Costs

None

Cause and Effect

Management indicated that the lack of the subrecipient monitoring was attributed to the lack of staff and staff turnover in the recent fiscal year. The lack of programmatic reviews over subgrantee activities involving the review of eligibility files could result in noncompliance with federal subrecipient monitoring requirements.

Recommendation

We recommend that policies and procedures be implemented regarding programmatic reviews over the City's subrecipients to help ensure compliance with the federal eligibility requirements.

Views of responsible officials and planned corrective actions

Eligibility for SHP programs are accomplished by the universal use of the Homeless Verification Form, developed by the City and approved by HUD. All subrecipients funded through the Long Beach Continuum of Care (CoC) are required by contract to use the form for homeless verification. The form has been distributed to all subrecipients and discussed at the CoC mandatory trainings. The Monitoring Guideline Manual, which contains the form is distributed to all subrecipients at the initial contract and is updated as needed throughout the year. For all subrecipients located at the Multi-Service Center (MSC), the homeless verification forms are completed as part of the general intake paper done through city employed intake workers. Note that of the 14 subrecipients audited, 9 are located at the Multi-Service Center (MSC). The 5 subrecipients at the remote locations are required to use the standard form and attend the mandatory CoC training. The City's Human and Social Services Bureau does do site visits reviewing a three page list of points on the condition of the facility such as beds filled, services occurring, site clean etc and a financial review is also completed.

The Health Department and Financial Management Department will work together to review the existing Monitoring Guideline Manual and ensure it complies with federal requirements for subrecipient monitoring particularly as it relates to eligibility determinations. Moreover, the City will implement a mandatory training program appropriate for all employees involved in administering grants, a move that is intended to achieve improved compliance and efficiency.

CITY OF LONG BEACH, CALIFORNIA

Schedule of Findings and Questioned Costs

Year ended September 30, 2006

Finding 06-7 – Subrecipient Monitoring

Program Information

Federal Program:

Homeless Supportive Housing Program, CFDA No. 14.235

Federal Award Numbers and Years

<u>Award Numbers</u>	<u>Award Dates</u>
CA16B106-009	November 1, 2003 - October 31, 2006
CA 16B306-002	November 1, 2005 - October 31, 2007
CA16B206-001	January 1, 2005 - December 31, 2007
CA16B206-002	January 1, 2005 - December 31, 2007

Federal Agency:

U.S. Department of Housing and Urban Development

Specific Requirement: TITLE 24-HOUSING AND URBAN DEVELOPMENT, CHAPTER V – OFFICE OF ASSISTANT SECRETARY FOR COMMUNITY PLANNING AND DEVELOPMENT, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT, PART 583_SUPPORTIVE HOUSING PROGRAM, Subpart D, Program Requirements, Sec. 583.330, Applicability of other Federal requirements, in addition to the requirements set forth in 24 CFR part 5, use of assistance provided under this part must comply with the following Federal requirements:

- (e) Conflicts of interest. (1) In addition to the conflict of interest requirements in 24 CFR part 85, no person who is an employee, agent, consultant, officer, or elected or appointed official of the recipient and who exercises or has exercised any functions or responsibilities with respect to assisted activities, or who is in a position to participate in a decision-making process or gain inside information with regard to such activities, may obtain a personal or financial interest or benefit from the activity, or have an interest in any contract, subcontract, or agreement with respect thereto, or the proceeds thereunder, either for himself or herself or for those with whom he or she has family or business ties, during his or her tenure or for one year thereafter. Participation by homeless individuals who also are participants under the program in policy or decision-making under Sec. 583.300(f) does not constitute a conflict of interest.

TITLE 24 – HOUSING AND URBAN DEVELOPMENT, PART 85_ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS, Subpart C_Post-Award Requirements, Sec. 85.40, Monitoring and reporting program performance:

- (a) Monitoring by grantees. Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity.

CITY OF LONG BEACH, CALIFORNIA

Schedule of Findings and Questioned Costs

Year ended September 30, 2006

Condition

The City Auditor's Office noted a conflict of interest issue related to one of the City's subrecipients. Based on a title search conducted as part of an external fraud investigation, properties leased by the City's subrecipient are either owned by the subrecipient's president or a direct family member. The property leases were part of the subrecipient's reimbursement request to the City for the Homeless Supportive Housing Program.

Upon discovery of the subrecipient's conflict of interest in December 2006, the City Attorney and City Auditor's offices had engaged an independent CPA firm to conduct a fraud investigation. Additionally, the City's Financial Management Department is aware of the conflict of interest issue and has withheld all further payments to the subrecipient in question.

Lastly, the City was not able to obtain the latest single audit report from the subrecipient in question, despite two requests sent by the City as part of their monitoring process. The last single audit report received was for the period ended December 31, 2004. In that report, the subrecipient expended over \$500,000 in federal funds.

Questioned Costs

\$445,603 (Total Homeless Supportive Housing Program grant expenditures reimbursed to the subrecipient in question. This amount represents approximately 10% of the total Homeless Supportive Housing Program federal expenditures totaling \$4,506,840.)

Cause and Effect

Management indicated that this finding is attributed to the subrecipient's noncompliance with conflict of interest federal regulations. The subrecipient's actions resulted in a violation of the conflict of interest federal requirement.

Recommendation

We recommend that the City continue to monitor the external fraud investigation being performed, and to further improve current policies and procedures over subrecipient monitoring to ensure compliance with federal conflict of interest requirements.

Views of responsible officials and planned corrective actions

The City Attorney's Office in conjunction with the City Auditor's Office is investigating the violation of Federal conflict of interest requirements by the subrecipient in question. In addition, both offices engaged an independent CPA firm to conduct a fraud investigation and review the financial documents and recordkeeping for the subrecipient. Additional payments to the subrecipient have been withheld pending the results of this investigation. The City has informed the Federal Housing and Urban Development Department of this issue and has met with HUD to provide an update of the status of the investigation. The City also disclosed to HUD its current decision to withhold further reimbursement from the subrecipient and HUD agreed with that approach. The City will continue to monitor the situation closely and will continue to keep HUD apprised of the situation.

CITY OF LONG BEACH, CALIFORNIA

Schedule of Findings and Questioned Costs

Year ended September 30, 2006

In addition, the City's Department of Financial Management will work closely with the Health Department to ensure compliance with Federal requirements for subrecipient monitoring.

On September 8, 2006, the City's Department of Financial Management drafted an amendment to the City's Financial Policy and Procedure FPP5-1, *Policy for Grants Processing* under "Section E. Grant Administration, Subsection 3(b). Federal Grants" which clearly described the responsibilities of pass-through entities.

Finally, the City will implement a mandatory training program appropriate for all employees involved in administering grants, a move that is intended to achieve improved productivity and efficiency.

CITY OF LONG BEACH

Asset Forfeiture Program

Statement of Program Receipts, Expenditures and Changes in Fund Balance

Year ended September 30, 2006

(Unaudited)

	U.S. Department		
	Justice funds	Treasury funds	Total
Fund balance at October 1, 2005	\$ 793,019	954,099	1,747,118
Program receipts:			
Federal funds received	52,830	—	52,830
Interest income accrued	24,147	33,584	57,731
Total program receipts	76,977	33,584	110,561
Program expenditures:			
Public safety	302,395	220,353	522,748
Fund balance at September 30, 2006	\$ 567,601	767,330	1,334,931

See accompanying independent auditors' report on compliance with requirements applicable to each major program and on internal control over compliance in accordance with OMB Circular A-133.

CITY OF LONG BEACH

Spousal Abuser Prosecution Program

Reconciliation of Financial Activity
for all Grants with Activity

Years ended September 30, 2006, 2005 and 2004

(Unaudited)

	Cumulative	Grant activity		
		FY 2006	FY 2005	FY 2004
Grant Award No. : 04 SA11F009				
Cash receipts	\$ 43,557	8,860	34,697	—
Expenditures:				
To Grant : Staff	\$ 43,557	—	36,865	6,692
Match : Staff	23,919	—	16,260	7,659
Operational	203	—	203	—
Total expenditure	\$ 67,679	—	53,328	14,351
Grant Award No. : 05 SA12F009				
Cash receipts	\$ 43,557	43,557	—	—
Expenditures:				
To Grant : Staff	\$ 43,557	29,885	13,672	—
Match : Staff	25,623	21,952	3,671	—
Operational	360	292	68	—
Total expenditure	\$ 69,540	52,129	17,411	—
Grant Award No. : 06 SA13F009				
Cash receipts	\$ —	—	—	—
Expenditures:				
To Grant : Staff	\$ 13,339	13,339	—	—
Match : Staff	3,103	3,103	—	—
Operational	—	—	—	—
Total expenditure	\$ 16,442	16,442	—	—
Total City Expenditures for Program in FY 2006		\$ 68,571		

See accompanying independent auditors' report on compliance with requirements applicable to each major program and on internal control over compliance in accordance with OMB Circular A-133.

CITY OF LONG BEACH

State of California, Business, Transportation and Housing Agency
Office of Traffic Safety

Schedule of Revenue and Expenditures

Years ended September 30, 2006, 2005 and 2004

(Unaudited)

Grant Title : Long Beach Family Safety

Initiative

Grant No : CB0403

Grant Award : \$330,000

Grant activity

	<u>Cumulative</u>	<u>FY 2006</u>	<u>FY 2005</u>	<u>FY 2004</u>
Total expenditures	\$ 323,490	—	166,876	156,614
Cash receipts	323,490	49,525	153,511	120,454
Receivable (deferred)	<u>\$ —</u>	<u>(49,525)</u>	<u>13,365</u>	<u>36,160</u>

Grant Title : Long Beach Family Safety

Initiative

Grant No : OP0601

Grant Award : \$376099

Grant activity

	<u>Cumulative</u>	<u>FY 2006</u>	<u>FY 2005</u>	<u>FY 2004</u>
Total expenditures	\$ 131,120	131,120	—	—
Cash receipts	39,761	39,761	—	—
Receivable (deferred)	<u>\$ 91,359</u>	<u>91,359</u>	<u>—</u>	<u>—</u>

Grant Sobriety Checkpoint

Grant No : AM05087

Grant Award : \$35460

Grant activity

	<u>Cumulative</u>	<u>FY 2006</u>	<u>FY 2005</u>	<u>FY 2004</u>
Total expenditures	\$ 35,460	11,554	23,906	—
Cash receipts	35,460	35,460	—	—
Receivable (deferred)	<u>\$ —</u>	<u>(23,906)</u>	<u>23,906</u>	<u>—</u>

Grant Title : Pedestrian Countdown

Grant No : PS0507

Grant Award : \$70,000

Grant activity

	<u>Cumulative</u>	<u>FY 2006</u>	<u>FY 2005</u>	<u>FY 2004</u>
Total expenditures	\$ 69,821	69,821	—	—
Cash receipts	69,821	69,821	—	—
Receivable (deferred)	<u>\$ —</u>	<u>—</u>	<u>—</u>	<u>—</u>

CITY OF LONG BEACH

State of California, Business, Transportation and Housing Agency
Office of Traffic Safety

Schedule of Revenue and Expenditures

Years ended September 30, 2006, 2005 and 2004

(Unaudited)

Grant Title : Interagency Bicycle &
Pedestrian Safety

Grant No : PS0506

Grant Award : \$355,638

Grant activity

	<u>Cumulative</u>	<u>FY 2006</u>	<u>FY 2005</u>	<u>FY 2004</u>
Total expenditures	\$ 355,638	326,593	29,045	—
Cash receipts	65,066	53,290	11,776	—
Receivable (deferred)	<u>\$ 290,572</u>	<u>273,303</u>	<u>17,269</u>	<u>—</u>

Grant Title : Driving While Impaired
Impact Project

Grant No : AL0670

Grant Award : \$283,901

Grant activity

	<u>Cumulative</u>	<u>FY 2006</u>	<u>FY 2005</u>	<u>FY 2004</u>
Total expenditures	\$ 109,116	109,116	—	—
Cash receipts	69,972	69,972	—	—
Receivable (deferred)	<u>\$ 39,144</u>	<u>39,144</u>	<u>—</u>	<u>—</u>

Grant Title : Seatbelt Compliance
Campaign

Grant No : IN61929

Grant Award : \$89,995

Grant activity

	<u>Cumulative</u>	<u>FY 2006</u>	<u>FY 2005</u>	<u>FY 2004</u>
Total expenditures	\$ 72,219	72,219	—	—
Cash receipts	72,219	72,219	—	—
Receivable (deferred)	<u>\$ —</u>	<u>—</u>	<u>—</u>	<u>—</u>

See accompanying independent auditors' report on compliance with requirements applicable to each major program and on internal control over compliance in accordance with OMB Circular A-133.

CITY OF LONG BEACH
 Payments to Subrecipients
 Year ended September 30, 2006
 (Unaudited)

Federal program	Subrecipient name	Program title	Cash payments
Department of Housing and Urban Development: Homeless Supportive Housing Program (SHP)	1736 Family Crisis Center	DV I & DV II	\$ 756,742
"	Atlantic Recovery Services	TH for Single Women	445,603
"	Beyond Shelter	Case Mgmt – MSC	132,660
"	Catholic Charities	Case Mgmt – Outreach	18,049
"	Children Today	ChildCare I	267,602
"	Comprehensive Child Development	Cabrillo Child Development	210,421
"	Goodwill Industries	Employment Placement	50,979
"	Interval House	DV Shelter	108,732
"	Mental Health Association	Safe Haven PH	385,799
"	New Image	TH or SSO	196,357
"	Salvation Army	Transitional Living Center	208,413
"	Substance Abuse Foundation	MSC Services	34,376
"	Travellers' Aid Society-MSC	REAPP	53,562
"	US Veterans	ADVANCE	533,134
	Total for SHP Subrecipients		<u>\$ 3,402,429</u>
Department of Labor: Workforce Investment Act (WIA)	California State University, Long Beach	Adult	\$ 100,614
		Youth	89,438
		Dislocated Worker	41,899
		Healthcare Collaborative	29,369
		Nursing Educ. Cap	7,680
		Nat'l Emergency	10,932
	Total for CSULB		<u>279,932</u>
Workforce Investment Act (WIA)	Cambodian Association of America	Youth	42,463
"	Centro Cha, Inc	Youth	36,479
"	Harbor View Group Home	Youth	3,170
"	Long Beach Memorial Medical Center	OC Nursing Init	207,216
"	Long Beach Unified School District	Youth	6,118
"	St. Mary Medical Center Foundation	Youth	9,428
"	United Auto Workers	Adult	78,905
		Dislocated Worker	36,943
		Work Incentive	24,814
	Total for United Auto Workers		<u>140,662</u>
	Total for WIA Subrecipients		<u>\$ 725,468</u>
Wager-Peyser Act	California State University, Long Beach	Healthcare Collaborative	\$ 21,021
	Total for Wagner-Peyser Subrecipient		<u>\$ 21,021</u>

CITY OF LONG BEACH
 Payments to Subrecipients
 Year ended September 30, 2006
 (Unaudited)

<u>Federal program</u>	<u>Subrecipient name</u>	<u>Program title</u>	<u>Cash payments</u>
Department of Health and Human Services:			
Children and Families	Better World Advertising	HIV High Risk	\$ 182,000
"	Being Alive Long Beach	HIV/AIDs Educ & Prev	81,600
		HIV/AIDs Case Mgmt	69,542
	Total for Being Alive Long Beach		<u>151,142</u>
Children and Families	California State University, Long Beach	HIV/AIDs Educ & Prev	102,000
"	St. Mary Medical Center	HIV/AIDs Educ & Prev	66,666
	Total for Children and Families Subrecipients		<u>\$ 501,808</u>
Department of Education:			
Elementary and Secondary Education	United Auto Workers	Evenstart Family Literacy	\$ 6,629
"	Long Beach Unified School District	Evenstart Family Literacy	<u>114,450</u>
	Total for Elem and Secondary Educ Subrecipients		<u>\$ 121,079</u>
Department of Homeland Security			
Urban Area Security Initiative	City of Bellflower	UASI 03	\$ 42,120
"	City of Carson	UASI 03	149,423
"	City of Compton	UASI 03	390
"	Los Angeles County	UASI 03 Fire	62,000
		UASI 03 Health	79,046
		UASI 03 Sheriff	26,952
		UASi 04 Sheriff	378,360
	Total for Los Angeles County		<u>546,358</u>
Urban Area Security Initiative	City of Signal Hill	UASI 03	46,200
		UASI 04	205,157
	Total for City of Signal Hill		<u>251,357</u>
	Total for Urban Area Security Initiative Subrecipients		<u>\$ 989,648</u>

See accompanying independent auditors' report on compliance with requirements applicable to each major program and on internal control over compliance in accordance with OMB Circular A-133.